

Financial Statements and Independent Auditor's Report

Housing and Community Development Corporation of Hawaii

Year ended June 30, 2006

Housing and Community Development Corporation of Hawaii

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Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

The management of the Housing and Community Development Corporation of Hawaii (Corporation) offers readers of the Corporation's financial statements this narrative overview and analysis of their financial activities for the fiscal year ended (FYF) June 30, 2006. This document should be read in conjunction with the audited financial statements.

Introduction

The Housing and Community Development Corporation of Hawaii is a housing authority, established by the State Legislature effective July 1, 1988. The Corporation consolidated the former Hawaii Housing Authority, the Housing Finance and Development Corporation, and the Rental Housing Trust Fund Commission.

The Corporation administers the following major programs:

- Federal and State public housing programs
- Federal and State rent subsidy programs
- Homeless programs
- Development programs
- Financing programs to facilitate affordable housing development
- Financing programs to assist first-time homebuyers

The Corporation is responsible for the administration of over 5,300 federal public housing units in Hawaii, with funds received from the United States Department of Housing and Urban Development (HUD). The Corporation also administers the HUD Section 8 Housing Assistance Payments – Special Allocations Program, through a subcontract with the Bremerton (Washington) Housing Authority.

The Corporation has received authority from the State of Hawaii (State) to assist in the delivery of affordable rental housing throughout the State on a cost-effective basis, through the financing and/or refinancing of rental housing projects developed or acquired by the Corporation.

In addition, the Corporation administers a rental assistance program that subsidizes rental payments to persons and families with incomes that do not exceed 80% of the area median income. The Corporation also provides incentives, through tax credits, to developers and owners of private rental housing projects where the monthly rents are affordable to tenants with incomes of 60% or lower of the area median income.

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The Corporation is administratively attached to the State Department of Human Services. The Corporation's Board of Directors consists of nine members, six of whom are public members appointed by the Governor, and confirmed by the Senate of the State of Hawaii. Public members shall be appointed from each of the counties of Honolulu, Hawaii, Maui and Kauai. At least one public member shall be a person who is assisted under the federal low-rent public housing or federal section 8 tenant-based housing assistance payments program. The Director of Business, Economic Development and Tourism; the Director of Human Services; and the Governor's Senior Policy Advisor are ex-officio voting members. All Corporation action is taken by the affirmative vote of at least five members.

Financial Highlights

- The Corporation's total assets decreased by \$65.0 million (or 5.7%) to \$1,081.2 million as compared to \$1,146.2 million in the previous year. The decrease resulted primarily from the use of assets held by trustee for the early bond redemptions of \$67.7 million in the Single Family Mortgage Purchase Revenue Bond program. Through the issuance of revenue bonds, the Corporation provides eligible borrowers with mortgage loans at below market interest rates. The revenue bonds may also be redeemed without premium prior to maturity, at the option of the Corporation, as funds become available from un-disbursed bond proceeds, principal payments and prepayments of mortgages, excess mounts in the debt service reserve account or excess revenues (as described in the bond indentures).
- Total government-wide revenues and expenses were \$160.2 million and \$148.8 million, respectively, resulting in an increase in net assets of \$11.4 million during the fiscal year. The net assets of the Business-type activities increased by \$4.7 million and the net assets of the Governmental activities increased by \$6.7 million.
- At the end of the fiscal year ending June 30, 2006, the Corporation's governmental funds reported a combined ending fund balance of \$15.1 million, an increase of \$8.8 million from the prior year. The increase is due primarily to increases of State allotted appropriations of \$8.1 million for the General Funds and \$3.7 million for the State Capital Projects Fund. The General Funds experienced a corresponding increase in expenditures of \$2.1 million from the prior year for an excess of revenues over expenditures of \$6.0 million.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial statements of the Corporation. The financial statements consists of four parts: (1) Management's Discussion and Analysis; (2) the basic financial statements; (3) related notes to the financial statements and (4) other required supplementary information. These components are described below:

Basic Financial Statements

The basic financial statements include two kinds of statements that present different views of the Corporation:

- The first two statements are Corporation-wide financial statements that provide information about the Corporation's overall financial position and results of operations. These statements, which are presented on an accrual basis of accounting, consist of the Statement of Net Assets and the Statement of Activities.
- The remaining statements are fund financial statements of the Corporation's overall governmental funds, for which activities are funded primarily from appropriations from the State or by contributions from HUD, and the Corporation's major and non-major proprietary funds, which operate similar to business activities. The governmental funds are presented on a modified accrual basis of accounting. The proprietary and the fiduciary funds are presented on an accrual basis of accounting.
- The basic financial statements also include a "Notes to Financial Statements" section that explains some of the information in the Government-wide and the Fund financial statements and provides more detailed data.
- The "Notes to Financial Statements" are followed by a "Supplementary Information" section, which presents a budgetary comparison schedule, which is required supplementary information, and information on non-major funds, which is not required.

Government-Wide Financial Statements

The government-wide statements report information about the Corporation as a whole using accounting methods similar to those used by private sector companies. The statement of net assets provides both short-term and long-term information about the Corporation's financial position,

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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which assists in assessing the Corporation's economic condition at the end of the fiscal year. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Most of the Corporation's activities are business-type activities and are reported in its proprietary funds. The government-wide financial statements include two statements:

- The *statement of net assets* presents all of the Corporation's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases and decreases in the Corporation's net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.
- The *statement of activities* presents information indicating how the Corporation's net assets changed during the most recent fiscal year.

The government-wide financial statements of the Corporation are divided into two categories:

- Governmental activities – The activities in this section are primarily supported by State appropriations or by HUD contributions.
- Business-type activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users.

Fund Financial Statements

The fund financial statements provide more detailed information about the Corporation's most significant funds and not the Corporation as a whole. The financial activities of the Corporation are recorded in individual funds, each of which is deemed to be a separate accounting entity. Funds are either reported as a major fund or a non-major fund. In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*, which sets forth the minimum criteria for the determination of major funds. The Corporation was required to implement these standards for the fiscal year ended June 30, 2002. The non-major funds are combined in a column in the fund financial statements and are detailed in the combining section of the financial statements.

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The Corporation has three types of funds:

- Governmental Funds:
 - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.
 - Governmental fund financial statements help determine whether there are more or fewer financial resources that can be spent in the near future to finance the Corporation's programs.
 - The focus of the governmental funds is narrower than that of the government-wide financial statements, therefore it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decision.
 - Both the governmental fund balance sheet and the governmental statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.
- Proprietary Funds:
 - Enterprise Funds are used to account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing services to customers.
 - Internal Service Funds are used by the Corporation to account for its central equipment and vehicles.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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- Fiduciary Funds:
 - Fiduciary Funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Corporation's own programs.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This section includes a budgetary comparison schedule, which includes a reconciliation between the statutory fund balance for budgetary purpose and the fund balance for the major governmental funds as presented in the governmental fund financial statements. This management's discussion and analysis is also required supplementary information that is required to be presented preceding the financial statements.

Other information

The combining statements, which include non-major funds, governmental, enterprise and internal service funds are presented as other information.

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Government-Wide Financial Analysis

As noted earlier, the *statement of net assets* presents all of the Corporation's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in net assets may serve as a useful indicator of the Corporation's financial position. As indicated below, as of June 30, 2006, the Corporation's total net asset balance was \$617.2 million, an increase of \$11.4 million (or 1.9%) from the previous year.

Condensed Statement of Net Assets
June 30, 2006 and June 30, 2005
(In thousand of dollars)

	Governmental Activities		Business Activities		Total		Total Percentage Change
	2006	2005	2006	2005	2006	2005	2006-2005
Current assets	\$ 22,359	\$ 11,800	\$ 229,679	\$ 219,227	\$ 252,037	\$ 231,027	9.1%
Assets held by trustee	-	-	329,550	413,792	329,550	413,792	-20.4%
Capital assets	39,075	41,195	354,443	358,591	393,518	399,786	-1.6%
Other assets	-	-	106,089	101,562	106,089	101,562	4.5%
Total assets	<u>\$ 61,434</u>	<u>\$ 52,995</u>	<u>\$ 1,019,761</u>	<u>\$ 1,093,172</u>	<u>\$ 1,081,194</u>	<u>\$ 1,146,167</u>	-5.7%
Current liabilities	\$ 7,600	\$ 5,860	\$ 65,984	\$ 106,882	\$ 73,583	112,742	-34.7%
Long-term liabilities	-	-	390,376	427,630	390,376	427,630	-8.7%
Total liabilities	<u>7,600</u>	<u>5,860</u>	<u>456,360</u>	<u>534,512</u>	<u>463,959</u>	<u>540,372</u>	-14.1%
Net assets							
Invested in capital assets							
net of related debt	39,075	41,195	245,803	247,728	284,878	288,923	-1.4%
Restricted	-	-	338,056	421,248	338,056	421,248	-19.7%
Unrestricted	<u>14,759</u>	<u>5,940</u>	<u>(20,458)</u>	<u>(110,316)</u>	<u>(5,699)</u>	<u>(104,376)</u>	94.5%
Total net assets	<u>53,834</u>	<u>47,135</u>	<u>563,401</u>	<u>558,660</u>	<u>617,235</u>	<u>605,795</u>	1.9%
Total liabilities and net assets	<u>\$ 61,434</u>	<u>\$ 52,995</u>	<u>\$ 1,019,761</u>	<u>\$ 1,093,172</u>	<u>\$ 1,081,194</u>	<u>\$ 1,146,167</u>	-5.7%

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Restricted net assets represent resources that are subject to external restrictions on how they may be used. The majority of this balance is attributed to approximately \$268.4 million of assets held by trustees under the Single Family Revenue Bond Fund. The Revenue Bond Funds trust indentures require cash and investments be held by a trustee.

Investment in capital assets consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "net assets invested in capital assets, net of related debt." At the end of the fiscal year ending June 30, 2006, unrestricted net assets reflected a deficit balance. This is primarily due to the Single Family Mortgage Revenue Bond Fund's revenue bonds payable balances of \$233.6 million. The assets that support these liabilities are the assets held by trustees, which are reflected as restricted net assets.

The decrease in long-term liabilities of \$37.2 million (or 8.7%) is primarily due to the redemptions of revenue bonds in fiscal year 2006. The long-term revenue bonds payable balance decreased by \$36.8 million (or 8.8%).

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The statement of activities presents information indicating how the Corporation's net assets changed during the most recent fiscal year.

Government-Wide Statement of Activities Years Ended June 30, 2006 and June 30, 2005 (In thousand of dollars)							
	Governmental Activities		Business Activities		Total		Total Percentage Change
	2006	2005	2006	2005	2006	2005	2006-2005
Revenues							
Program revenues:							
Charges for services	\$ -	\$ -	\$ 72,194	\$ 86,289	\$ 72,194	\$ 86,289	-16.3%
Operating grants and contributions	37,208	37,717	18,439	29,290	55,647	67,007	-16.9%
Capital grants and contributions	-	-	12,533	22,355	12,533	22,355	-34.6%
General revenues:							
State allotted appropriations, net of lapses	19,853	7,726	-	-	19,853	7,726	157.0%
Total revenues	57,061	45,443	103,166	137,934	160,227	183,377	-12.6%
Expenses							
Governmental activities							
Homeless services and assistance program	8,045	2,889	-	-	8,045	2,889	178.5%
Rental housing and assistance program	40,142	43,458	-	-	40,142	43,458	-7.6%
Business-type activities							
Rental assistance program	-	-	47,120	43,061	47,120	43,061	9.4%
Housing development program	-	-	5,353	31,987	5,353	31,987	-83.3%
Multi-family mortgage loan programs	-	-	3,279	2,996	3,279	2,996	9.4%
Single-family mortgage loan program	-	-	15,849	21,213	15,849	21,213	-25.3%
Rental housing program	-	-	23,824	23,379	23,824	23,379	1.9%
Others	-	-	5,149	4,699	5,149	4,699	11.1%
Total government-wide expenses	48,187	46,347	100,574	127,335	148,761	173,682	-14.3%
Excess of revenues over expenses	8,874	(904)	2,592	10,599	11,466	9,695	18.3%
Transfers	(2,175)	(1,187)	2,149	1,178	(26)	(9)	-188.9%
CHANGE IN NET ASSETS	6,699	(2,091)	4,741	11,777	11,440	9,686	18.1%
Total net assets, beginning of year	47,135	49,226	558,660	546,883	605,795	596,109	1.6%
Total net assets, end of year	\$ 53,834	\$ 47,135	\$563,401	\$ 558,660	\$617,235	\$605,795	1.9%

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Governmental Activities

Total net assets of the governmental activities were \$53.8 million at June 30, 2006, an increase of \$6.7 million from the previous year. Key elements of this increase are as follows:

- State allotted appropriations increased \$12.1 million from the prior year, primarily due to an increase in appropriations to the General Funds of \$8.1 million and an increase in appropriations to the State Capital Projects Fund of \$3.7 million
- Expenses for the Homeless services and assistance program increased \$5.2 million from the prior year.

Business-type Activities

Revenues of the Corporation's business-type activities were primarily from charges for services, program investment income and federal assistance program funds. Charges for services consist primarily of rental income and interest income on loans related to the Corporation's lending programs. The majority of the program investment income is from income earned within the Corporation's bond funds and is restricted to those funds.

For the fiscal year ending June 30, 2006, business-type activities increased the Corporation's net assets by \$4.7 million. Key elements of this increase are as follows:

- Capital grants and contributions decreased by \$9.8 million primarily due to a decrease in HUD Capital grants received.
- The Rental Housing Trust Fund recognized an increase in net assets of \$18.8 million, primarily due to the influx of \$17.0 million of conveyance tax transfers.
- The Dwelling Unit Revolving Fund had an increase in net assets of \$3.3 million primarily due to the \$1.2 million net gain on the sale of land and units and an operating transfer in of funds of \$1.1 million.
- The Single Family Mortgage Purchase Revenue Bond Fund incurred a decrease in mortgage-backed securities of \$10.1 million which resulted in a decrease in net assets of \$7.0 million.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Financial Analysis of the Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirement.

Governmental Funds

At June 30, 2006, the Corporation's governmental funds reported a combined ending fund balance of \$15.1 million, an increase of \$8.8 million in comparison to the combined fund balance of \$6.3 at June 30, 2005. The increase was primarily due to the following:

- The *State Capital Improvement Projects Fund* recognized an increase in fund balance of \$3.9 million. During the current year, the fund received \$4.9 million of State allotted appropriations for capital projects, expended \$0.7 million for capital outlays and transferred out \$0.3 million.
- The fund balance of the *General Funds* increased \$5.8 million. This was primarily due to an increase in State allotted appropriations of \$8.1 million and an increase in homeless services expenditures of \$2.0 million.

Proprietary Funds

The proprietary fund consists of four major and several non-major funds. The four major funds are: 1) Federal Low Rent Program, 2) Dwelling Unit Revolving Fund, 3) Hawaii Rental Housing System Revenue Bond Fund and 4) Single Family Mortgage Purchase Revenue Bond Fund.

- Under the *Federal Low Rent Program*, the Corporation administers the operations of over 5,300 federal public housing units. HUD provides the Corporation with funds to operate, repair and maintain the public housing inventory. During fiscal year 2006, the Corporation received \$25.7 million of HUD operating subsidies and grants, a decrease of \$7.7 million from the prior year. The decrease was due primarily to a decrease in revenues attributed to the federal capital grant program.
- The *Dwelling Unit Revolving Fund* accounts for State funds used for acquiring, developing, selling, leasing and renting residential, commercial and industrial properties, providing

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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mortgage and interim financing, which generates rental income, sales proceeds and interest earnings from the financing and investment of such funds. Net assets increased by \$3.3 million during the current year. The increase in net assets is primarily due to the sales of land and units which resulted in a net gain of \$1.2 million and a net operating transfer in of funds of \$1.1 million.

- The *Hawaii Rental Housing System Revenue Bond Fund* accounts for special funds for housing projects or systems of housing projects financed from proceeds of bonds secured under the same trust indenture. The fund accounts for six multifamily rental housing projects located throughout the State. Net assets increased by \$0.1 million during the current year.
- The *Single Family Mortgage Purchase Revenue Bond Fund* accounts for the proceeds from the issuance of bonds used to make below-market interest rate mortgage loans and the repayment, interest, and earnings from such loans and investment of such funds. Change in net assets was a decrease of \$7.0 million in 2006 compared to an increase of \$0.9 million in the prior year. The decrease in net assets was primarily due to the adjustment to the fair value of investments. There was a net *decrease* in fair value of mortgage-backed securities of \$10.1 million in the current year compared to a net *increase* in fair value of \$1.5 million in the prior year.

During the current year, the Single Family Mortgage Purchase Revenue Bond Fund had early redemptions of \$67.7 million.

Budgetary Analysis

The differences between the original and final amended budgets were relatively minor. The actual expenditures for the general funded rental housing and homeless service programs were \$106,962 less than the budgeted expenditures. This was due primarily to program requirements.

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Capital Assets and Debt Administration

Capital Assets

As of June 30, 2006, the Corporation had invested approximately \$393.5 million (net of accumulated depreciation of \$344.9 million) in a broad range of capital assets. This amount represents a decrease of \$6.3 million (or 1.6%) over the prior year.

Corporation's Capital Assets
Years Ended June 30, 2006 and June 30, 2005
(In thousand of dollars)

	Governmental Activities		Business Activities		Total		Total Percentage Change
	2006	2005	2006	2005	2006	2005	2006-2005
Land	\$ 2,373	\$ 2,373	\$ 44,003	\$ 44,146	\$ 46,376	\$ 46,519	-0.3%
Buildings and improvements	37,471	34,671	596,269	566,942	633,740	601,613	5.3%
Equipment	1,097	1,097	11,971	12,021	13,068	13,118	-0.4%
Construction in progress	18,148	21,907	27,103	44,688	45,251	66,595	-32.1%
Total	59,089	60,048	679,346	667,797	738,435	727,845	1.5%
Accumulated depreciation	(20,014)	(18,853)	(324,903)	(309,205)	(344,917)	(328,058)	5.1%
Total Capital Assets, net	<u>\$ 39,075</u>	<u>\$ 41,195</u>	<u>\$ 354,443</u>	<u>\$ 358,592</u>	<u>\$ 393,518</u>	<u>\$ 399,787</u>	-1.6%

Debt Administration

Through June 30, 2006, approximately \$2.13 billion of revenue bonds have been issued. The revenue bonds are payable solely from the revenues and other monies and assets of the Revenue Bond Funds and other assets of the Corporation pledged under the various bond indentures. Revenue bonds payable decreased \$69.6 million to \$388.6 million at June 30, 2006 from \$458.2 million at June 30, 2005. During the year ended June 30, 2006, the Corporation issued approximately \$6.2 million of new bonds and had bond redemptions of approximately \$76.3 million. As defined in the bond indentures, under certain conditions, revenue bonds may be redeemed without premium prior to maturity. Included in the current year bond redemptions were early redemptions of \$67.7 million.

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under certain conditions, revenue bonds may be redeemed without premium prior to maturity. Included in the current year bond redemptions were early redemptions of \$67.7 million.

During fiscal year 2006, Moody's Investors Service's rating of the Corporation continued to be A2 with a negative outlook. The Corporation's bond ratings for the Single Family Mortgage Purchase Revenue Bond program were as follows:

- Standard & Poor's Rating Services: AAA
- Moody's Investors Service: Aaa
- Fitch Ratings: AAA

Currently Known Facts, Decisions, or Conditions

- In accordance with Act 196, SLH 2005, the Corporation will be split into two organizations to more effectively concentrate on the development of affordable housing. The legislature found that the State's role in maintaining affordable housing in Hawaii has evolved into two parts: (1) Administering the State's public housing programs; and (2) Financing and developing affordable housing. Effective July 1, 2006 the Corporation will be bifurcated into (1) the Hawaii public housing administration and (2) the Hawaii housing finance and development administration.
- On July 1, 2006, the Corporation redeemed \$11.3 million of outstanding revenue bonds from the Single Family Mortgage Purchase Revenue Bond Fund, including \$5.8 million of early redemptions.

Requests for Information

This report is designed to provide an overview of the Corporation's finances. Questions concerning any of the information found in this report or requests for additional information should be directed to the Fiscal Management Officer, Housing and Community Development Corporation of Hawaii, 677 Queen Street, Suite 300, Honolulu, Hawaii 96813.



Independent Auditor's Report

Board of Directors

Housing and Community Development Corporation of Hawaii:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of governmental funds and proprietary funds all as listed under "basic financial statements" in the accompanying table of contents of Housing and Community Development Corporation of Hawaii (Corporation) as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note A, the financial statements of the Corporation are intended to present the financial position, changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate other fund information of the State of Hawaii that is attributable to the transactions of the Corporation. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2006, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of governmental funds and proprietary funds of the Corporation as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 1 to 14 and Budgetary Comparison Schedules on pages 83 to 85 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on Management's Discussion and Analysis or on the Budgetary Comparison Schedules.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements taken as a whole. The supplementary information as listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii
November 1, 2006

BASIC FINANCIAL STATEMENTS

Housing and Community Development Corporation of Hawaii
GOVERNMENT-WIDE
STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash (notes A7 and C)	\$ 17,687,933	\$ 169,834,676	\$ 187,522,609
Receivables			
Mortgage loans (note E)	-	1,296,440	1,296,440
Accrued interest	-	8,106,152	8,106,152
Tenant receivables, less allowance for doubtful receivables of \$5,796,911	-	744,765	744,765
Other	118,379	1,877,331	1,995,710
	<u>118,379</u>	<u>12,024,688</u>	<u>12,143,067</u>
Internal balances			
Due from other State of Hawaii Departments	2,537,566	(2,537,566)	-
Due from HCD	-	23,821,045	23,821,045
Inventories (note A9 and N)	665,591	3,825,734	4,491,325
Developments in progress and dwelling units	-	20,916,442	20,916,442
Materials and supplies	-	825,317	825,317
Net investment in direct financing lease (note F)	-	499,184	499,184
Prepaid expenses and other assets	1,349,042	228,081	1,577,123
Deposits held in trust	-	99,586	99,586
Deferred bond discount and issuance costs (note A12)	-	141,872	141,872
	<u>-</u>	<u>141,872</u>	<u>141,872</u>
Total current assets	<u>22,358,511</u>	<u>229,679,059</u>	<u>252,037,570</u>
Assets Held by Trustees Under Revenue Bond Programs			
Cash	-	2,956,113	2,956,113
Investments (notes A8, D, G and N)	-	326,593,930	326,593,930
	<u>-</u>	<u>329,550,043</u>	<u>329,550,043</u>
Investments (notes A8 and D)	-	6,380,627	6,380,627
Mortgage Loans, net of current portion (note E)	-	72,173,149	72,173,149
Notes and Loans, net of current portion (note E)	-	426,100	426,100
Other Receivables	-	517,712	517,712
Restricted Deposits and Funded Reserves	-	8,506,200	8,506,200
Net Investment in Financing Lease, net of current portion (note F)	-	15,863,896	15,863,896
Deferred Bond Issuance Costs (note A12)	-	2,221,210	2,221,210
Capital Assets, less accumulated depreciation (notes A5, H and I)	<u>39,075,011</u>	<u>354,442,595</u>	<u>393,517,606</u>
TOTAL ASSETS	<u>\$ 61,433,522</u>	<u>\$ 1,019,760,591</u>	<u>\$ 1,081,194,113</u>

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii
GOVERNMENT-WIDE
STATEMENT OF NET ASSETS (continued)

June 30, 2006

	Governmental Activities	Business-type Activities	Total
Current liabilities			
Accounts payable	\$ 1,368,580	\$ 5,807,875	\$ 7,176,455
Accrued expenses	-	8,616,865	8,616,865
Interest (notes I and J)	1,551,248	5,513,032	7,064,280
Other	2,473,436	(2,473,436)	-
Internal balances	-	5,598,604	5,598,604
Due to State of Hawaii, including Office of Hawaiian Affairs (note M)	12,781	9,712	22,493
Due to HUD	-	2,325,411	2,325,411
Security deposits	-	39,019	39,019
Note payable (note I)	-	131,639	131,639
Mortgage payable (note I)	-	9,565,779	9,565,779
Revenue bonds payable, less deferred refunding cost (notes J and K)	2,193,652	66,415	2,260,067
Deferred income	-	567,161	567,161
Deferred commitment fees	-	198,876	198,876
Deferred gain on sale of units and land	-	30,016,452	30,016,452
Estimated future costs of land sold (note M)	-	-	-
Total current liabilities	7,599,717	65,983,384	73,583,101
Deferred Commitment Fees, net of current portion	-	1,764,353	1,764,353
Arbitrage Rebate Payable (note J)	-	3,015,012	3,015,012
Note Payable, net of current portion (note I)	-	472,437	472,437
Mortgage Payable, net of current portion (note I)	-	6,088,180	6,088,180
Revenue Bonds Payable, less deferred refunding costs, net of current portion (notes J and K)	-	379,036,104	379,036,104
Commitments and Contingencies (notes L, M, N, O and P)	-	-	-
Net Assets			
Invested in capital assets, net of related debt	39,075,011	245,631,893	284,706,904
Restricted by legislation and contractual agreements	-	338,056,243	338,056,243
Unrestricted	14,758,794	(20,287,015)	(5,528,221)
Total net assets	53,833,805	563,401,121	617,234,926
TOTAL LIABILITIES AND NET ASSETS	\$ 61,433,522	\$ 1,019,760,591	\$ 1,081,194,113

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii
GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES

June 30, 2006

	Program Revenues				Net (expense) revenue and changes in net assets		
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Functions/Programs							
Governmental activities							
Homeless service and assistance program	\$ 8,443,937	\$ -	\$ 786,515	\$ -	\$ (7,237,422)	\$ -	\$ (7,237,422)
Rental housing and assistance program	40,142,231	-	36,420,485	-	(3,721,746)	-	(3,721,746)
Total governmental activities	48,186,168	-	37,207,000	-	(10,979,168)	-	(10,979,168)
Business-type activities							
Rental assistance program	47,119,597	14,411,031	1,407,877	12,333,377	-	(6,147,312)	(6,147,312)
Housing development program	5,353,369	4,668,640	2,863,181	-	-	2,178,432	2,178,432
Multi-family mortgage loan programs	3,278,791	19,252,537	1,113,098	-	-	17,086,844	17,086,844
Single-family mortgage loan program	13,849,045	10,012,409	(1,180,856)	-	-	(7,017,492)	(7,017,492)
Rental housing program	23,824,431	19,204,495	1,495,333	-	-	(3,064,603)	(3,064,603)
Offices	5,149,418	4,584,808	129,209	-	-	(444,401)	(444,401)
Total business-type activities	100,574,651	72,193,920	18,438,842	12,333,377	-	2,591,488	2,591,488
Total government-wide	<u>\$ 148,760,819</u>	<u>\$ 72,193,920</u>	<u>\$ 55,645,842</u>	<u>\$ 12,333,377</u>	<u>(10,979,168)</u>	<u>2,591,488</u>	<u>(8,387,680)</u>
State Allocated Appropriations, net of lapses					19,852,729	-	19,852,729
Net Transfers					(2,174,941)	2,149,434	(25,507)
Total general revenues and transfers					17,677,788	2,149,434	19,827,222
Change in net assets					6,698,620	4,740,922	11,439,542
Net Assets at July 1, 2005					47,135,185	358,660,199	605,795,384
Net Assets at June 30, 2006					<u>\$ 53,833,805</u>	<u>\$ 363,401,121</u>	<u>\$ 617,234,926</u>

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

GOVERNMENTAL FUNDS
BALANCE SHEET

June 30, 2006

	Section 8					
	General	Capital Projects	Housing Voucher	Contract Administration	Other Funds	Total Governmental Funds
ASSETS						
Current Assets:						
Cash (note 1)	\$ 7,124,591	\$ 5,560,693	\$ 4,263,499	\$ 730,955	\$ 8,195	\$ 17,687,933
Other receivables	300	-	1,320	116,759	-	118,379
Due from other funds	-	-	1,705,000	832,566	-	2,537,566
Due from HUD	-	-	23,017	303,859	338,715	665,591
Prepaid expenses and other assets	56,202	-	1,292,840	-	-	1,349,042
TOTAL ASSETS	\$ 7,181,093	\$ 5,560,693	\$ 7,285,676	\$ 1,984,139	\$ 346,910	\$ 22,358,511
LIABILITIES AND FUND BALANCE						
Current Liabilities:						
Accounts payable	\$ 751,274	\$ 289,253	\$ -	\$ -	\$ 328,053	\$ 1,368,580
Accrued expenses	112,920	-	388,926	722,704	-	1,224,550
Due to other funds	77,412	-	2,293,338	92,062	10,644	2,473,456
Due to HUD	-	-	2,637	1,931	8,213	12,781
Deferred income	-	-	2,193,652	-	-	2,193,652
Total liabilities	941,606	289,253	4,878,553	816,697	346,910	7,273,019
Fund Balances - Unrestricted:						
Reserved	6,239,487	3,271,440	-	-	-	11,510,927
Unreserved	-	-	2,407,123	1,167,442	-	3,574,565
Total fund balances	6,239,487	3,271,440	2,407,123	1,167,442	-	15,085,492
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,181,093	\$ 5,560,693	\$ 7,285,676	\$ 1,984,139	\$ 346,910	\$ 22,358,511

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE TO THE
STATEMENT OF NET ASSETS

June 30, 2006

Total fund balance - governmental funds		\$	15,085,492
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	\$	39,075,011	
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds		<u>(326,698)</u>	<u>38,748,313</u>
Net assets of governmental activities		\$	<u>53,833,805</u>

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year ended June 30, 2006

	General	Capital Projects	Housing Voucher	Section 8 Contract Administration	Other Funds	Total Governmental Funds
Revenues:						
Intergovernmental — HUD annual contributions and others	\$ -	\$ -	\$ 16,492,745	\$ 18,957,619	\$ 1,753,796	\$ 37,204,160
State allotted appropriations, net of lapsed funds	14,602,729	4,900,000	-	-	350,000	19,852,729
Interest	104	-	2,263	474	-	2,841
Total revenues	14,602,833	4,900,000	16,495,008	18,958,093	2,103,796	57,059,730
Expenditures:						
Current						
Housing assistance payments	680,068	-	14,382,990	17,762,034	-	32,825,092
Homeless services	6,695,075	-	-	-	-	6,695,075
Personal services	481,033	-	1,971,782	350,943	-	2,803,758
Administration	102,270	48	604,233	1,045,792	2,168,413	3,920,756
Professional services	56,395	-	84,531	62,070	7,086	210,082
Security	47,526	-	2,028	288	-	49,842
Repairs and maintenance	404,066	-	9,579	601	-	414,246
Utilities	1,596	-	-	-	-	1,596
Insurance	995	-	7,662	1,549	-	10,206
Other	1,997	-	12,904	96	-	14,997
Capital outlays	135,715	686,899	-	3,527	-	816,141
Total expenditures	8,596,736	686,947	17,075,709	19,226,980	2,175,499	47,761,791
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	6,006,097	4,213,053	(580,701)	(268,887)	(71,703)	9,297,939
Other financing Uses - Transfers Out	188,536	320,108	-	20,475	-	529,119
Total other financing uses	188,536	320,108	-	20,475	-	529,119
NET CHANGE IN FUND BALANCE	5,817,561	3,892,945	(580,701)	(289,282)	(71,703)	8,768,830
Fund Balance at July 1, 2005	421,926	1,378,495	2,987,824	1,456,724	71,703	6,316,672
Fund Balance at June 30, 2006	\$ 6,239,487	\$ 5,271,440	\$ 2,407,123	\$ 1,167,442	\$ -	\$ 15,085,492

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF THE CHANGE IN FUND
BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2006

Net change in fund balances - total governmental funds		\$ 8,768,820
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation during the year.	\$ (2,120,087)	
Long-term compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	<u>49,887</u>	<u>(2,070,200)</u>
Change in net assets of governmental activities		<u>\$ 6,698,620</u>

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

June 30, 2006

ANSI:73		Federal Low Rent Program		Dwelling Unit Revolving Fund		Hawaii Rental Housing System Revenue Bond Fund		Single Family Mortgage Purchase Revenue Bond Fund		Other Enterprise Funds		Total Enterprise Funds		Internal Service Funds	
Current Assets:		\$		\$		\$		\$		\$		\$		\$	
Cash (notes A7 and C)		9,618,246		81,088,628		1,817,311		-		76,180,099		168,704,484		1,130,192	
Receivables:		-		92,476		-		790,695		413,269		1,296,440		-	
Mortgage loans (note I)		-		666,494		112,648		4,673,000		2,644,503		8,096,645		9,507	
Accrued interest		-		-		-		-		166,153		744,765		-	
Tenant receivables, less allowance for doubtful accounts of \$5,796,971		498,783		15,711		64,118		-		773,931		1,877,331		-	
Other		94,927		370,633		637,840		-		3,397,856		12,015,181		9,507	
		593,710		1,145,314		814,606		3,463,693		-		-		-	
Due from other funds		3,830,319		462,125		-		-		9,228,814		13,550,238		-	
Due from other State of Hawaii Departments		-		23,821,945		-		-		-		23,821,945		-	
Due from HLC		3,633,164		-		-		-		192,370		3,825,734		-	
Inventories (notes A9 and A9)		-		20,916,442		-		-		-		20,916,442		-	
Developments in progress and dwelling units		-		-		-		-		163,438		823,317		-	
Materials and supplies		661,879		-		-		-		499,184		499,184		-	
Net investment in financing lease (note F)		-		29,932		809		7,073		190,247		228,081		-	
Prepaid expenses and other assets		-		-		-		-		99,386		99,386		-	
Deposits held in trust		-		-		31,278		-		18,106		141,872		-	
Deferred bond issuance costs		-		-		-		72,488		-		-		-	
Total current assets		18,366,318		127,463,306		2,684,204		3,533,256		90,369,900		244,627,184		1,139,699	
Assets Held by Trustees Under Revenue Bond Programs:															
Cash and cash equivalent		-		-		-		2,640,331		313,792		2,956,113		-	
Investments (notes A8, D, G and K)		-		-		30,841,432		265,788,923		29,963,575		326,593,930		-	
		-		-		30,841,432		268,429,254		30,279,367		329,350,643		-	
Investments (notes A8 and D)		-		-		-		-		6,380,627		6,380,627		-	
Mortgage loans, net of current portion (note E)		-		621,321		-		8,487,238		63,064,590		72,173,149		-	
Notes and loans, net of current portion (note E)		-		-		-		-		426,100		426,100		-	
Other Receivables		-		-		-		-		317,712		317,712		-	
Advances to Other Funds		-		-		-		-		323,090		323,090		-	
Restricted Deposits and Funded Reserves		-		-		-		-		8,306,290		8,306,290		-	
Net Investment in Financing Lease, net of current portion (note E)		-		-		-		-		13,863,896		13,863,896		-	
Deferred Bond Issuance Costs, net of current portion (note A12)		-		-		780,508		1,178,207		262,493		2,221,210		-	
Capital Assets, less accumulated depreciation (notes A5, H and I)		195,140,220		6,433,521		81,386,783		3,757		71,990,436		334,260,717		181,878	
TOTAL ASSETS		\$ 213,506,538		\$ 134,318,348		\$ 113,892,927		\$ 283,641,702		\$ 287,292,333		\$ 1,034,831,838		\$ 1,321,577	

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS (continued)

June 30, 2006

LIABILITIES AND NET ASSETS								
Current liabilities:								
Accounts payable	\$ 3,480,110	\$ 629,907	\$ 805,324	\$ 46,372	\$ 855,162	\$ 5,807,875	\$ -	-
Accrued expenses:								
Interest (notes I and J)	-	-	1,755,387	5,923,004	938,474	8,616,865	-	-
Other	4,016,393	417,124	33,879	121,320	934,316	5,513,032	-	-
	2,019,004	84,660	101,665	130,859	11,543,667	13,879,855	50,513	-
Due to other funds	-	-	-	-	23,000	5,598,004	-	-
Due to State of Hawaii, including Office of Hawaiian Affairs (note A)	-	5,573,604	-	-	9,712	9,712	-	-
Due to HUD	-	-	-	-	777,941	2,325,411	-	-
Security deposits	658,113	36,507	852,850	-	-	30,019	-	-
Note payable (note I)	-	30,019	-	-	-	131,639	-	-
Mortgage payable (note I)	-	-	-	-	-	-	-	-
Revenue bonds payable, less deferred refunding cost (notes J and K)	-	-	2,245,000	6,495,000	823,739	9,565,739	-	-
Deferred income	-	18,739	42,804	-	4,852	66,415	-	-
Deferred commitment fees	-	198,876	-	567,161	-	567,161	-	-
Deferred gain on sale of units and land	-	30,016,452	-	-	-	30,016,452	-	-
Estimated future costs of land sold	-	-	-	-	-	-	-	-
Total current liabilities	10,163,620	37,605,908	5,836,999	13,283,716	16,146,542	82,356,695	50,513	-
Deferred Commitment fees, net of current portion	-	-	-	-	-	-	-	-
Advance Rebate Payable (note J)	-	-	-	1,764,353	-	1,764,353	-	-
Note Payable, net of current portion (note I)	-	-	1,604	3,013,518	-	3,013,012	-	-
Mortgage Payable, net of current portion (note I)	-	361,110	-	-	371,327	472,457	-	-
Revenue Bonds Payable, less deferred refunding cost, net of current portion (notes J and K)	-	-	100,666,213	227,104,020	51,265,871	379,036,104	-	-
Commitments and Contingencies (notes L, M, N, O and P)	-	-	-	-	-	-	-	-
Net Assets:								
Invested in capital assets, net of related debt	195,140,220	6,093,392	(20,492,644)	3,737	64,705,290	245,450,015	181,878	-
Restricted by legislation and contractual agreements	8,202,608	97,211,938	30,841,432	268,420,244	38,785,567	338,056,245	-	-
Unrestricted	-	-	(60,677)	(229,956,706)	110,220,346	(21,567,201)	1,080,186	-
Total net assets	203,342,828	97,211,330	9,288,111	38,476,295	213,720,403	562,139,057	1,262,064	-
TOTAL LIABILITIES AND NET ASSETS	\$ 213,506,518	\$ 134,518,348	\$ 115,992,927	\$ 283,641,702	\$ 287,292,323	\$ 1,034,651,838	\$ 1,321,577	-

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF THE PROPRIETARY FUNDS NET ASSETS
TO THE STATEMENT OF NET ASSETS

Year ended June 30, 2006

Total net assets of proprietary funds	\$ 562,139,057
Amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities	<u>1,262,064</u>
Net assets of business-type activities	<u>\$ 563,401,121</u>

The accompanying notes are an integral part of this statements.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year ended June 30, 2006

	Hawaii: Federal Low Rent Program	Dwelling Unit Revoking Fund	Hawaii: Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating Revenues:							
Interest on mortgages, notes, loans, mortgage-backed securities, and net investment in financing lease (note 1)	\$ -	\$ 849,218	\$ -	\$ 10,009,030	\$ 2,325,572	\$ 13,183,820	\$ -
Net decrease in fair value of mortgage-backed securities (note A8)	-	-	-	(10,071,372)	-	(10,071,372)	-
Sales of land	-	620,118	-	-	-	620,118	-
Sales of unit	-	1,098,000	-	-	-	1,098,000	-
Rental	13,841,036	941,978	13,209,065	-	4,522,123	32,604,202	41,543
Conveyance tax	-	-	-	-	16,093,834	16,093,834	-
Other	49,557	1,159,326	712,738	2,594	5,352,791	7,651,006	-
Total operating revenues	14,281,591	4,608,640	14,011,803	(59,748)	29,174,320	62,079,608	41,543
Operating Expenses:							
Cost of land and units sold (note A1)	-	508,385	-	-	-	508,385	-
Project	6,960,097	1,617,840	6,259,962	-	2,622,869	17,461,668	-
Personal services	12,522,404	1,959,890	178,537	268,388	3,608,879	18,537,798	-
Depreciation	9,082,896	255,199	4,807,247	805	2,455,572	17,499,719	36,929
Housing assistance payments	-	-	-	-	1,677,471	1,677,471	-
Administration	3,858,513	452,481	901,896	-	1,030,413	5,616,227	-
(Recovery of) provision for losses	-	(59,446)	43,364	184,124	172,876	156,794	-
Loan servicing fees	-	-	-	41,029	-	41,029	-
Professional services	270,018	245,986	4,099	28,939	285,212	832,254	12,219
Mortgage insurance	-	-	-	15,159	-	15,159	-
Security	-	-	-	-	-	-	-
Insurance	1,578,846	552	-	67	1,981	1,581,446	-
Repairs and maintenance	177,237	11,256	-	-	67,192	255,685	-
Utilities	1,047,508	250,855	156	-	1,301,886	2,600,405	-
Payments in lieu of taxes	8,064,168	-	-	1,887	1,391,645	9,457,700	-
Capital expenditures	574,114	-	-	-	-	574,114	-
Interest expense	259,211	42,403	25,222	830	22,034	340,700	79,154
Other	-	-	-	13,394,841	2,137,558	15,532,399	-
Total operating expenses	45,286,412	5,331,920	11,534,547	13,936,069	17,190,418	93,269,366	128,302
Operating (loss) income earned forward	\$ (31,004,819)	\$ (655,280)	\$ 2,477,256	\$ (13,995,817)	\$ 11,983,902	\$ (31,189,758)	\$ (86,759)

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS (continued)

Year ended June 30, 2006

	Federal Low Rent Program	Dwelling Unit Revolving Fund	Hawaii Rural Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating (loss) income brought forward	\$ (31,001,819)	\$ (653,286)	\$ 2,477,256	\$ (13,995,817)	\$ 11,985,902	\$ (31,189,758)	\$ (86,759)
Nonoperating Revenues (Expenses):							
Interest income - cash and investments	181,218	2,865,181	1,046,590	8,890,516	4,808,060	17,789,565	43,673
Net decrease in fair value of investments	-	-	-	-	(2,520,058)	(2,520,058)	-
FHCD operating subsidy and others	25,702,154	-	-	-	-	25,702,154	-
Interest expense	(20)	(31,449)	(3,906,075)	(56,323)	(1,011,513)	(4,938,857)	-
Trustee fees	-	-	1,702	-	(7,190)	(61,811)	-
Amortization of deferred bond issuance costs	-	-	(127,587)	(271,723)	(18,515)	(417,825)	-
Loss on disposition of asset	-	-	(32)	-	-	(32)	-
Insurance expense	-	-	(130,819)	(1,577,337)	-	(130,819)	-
Arbitrage rebate	-	-	-	-	-	(1,577,337)	-
Other (expenses) revenues	-	-	(38,600)	-	36,952	(1,648)	-
Net nonoperating revenues (expenses)	25,883,552	2,831,732	(3,154,821)	6,093,133	1,278,936	33,824,332	43,673
Income (loss) before transfers	(5,118,467)	2,178,452	(677,565)	(7,010,684)	13,262,838	2,634,574	(43,086)
Net Operating Transfers	-	1,106,895	792,526	-	250,013	2,149,434	-
CHANGE IN NET ASSETS	(5,118,467)	3,285,347	114,961	(7,010,684)	13,512,851	4,784,008	(43,086)
Fund Net Assets at July 1, 2005	208,461,385	93,025,083	9,273,150	45,486,979	200,207,552	557,355,049	1,305,150
Fund Net Assets at June 30, 2006	\$ 203,342,918	\$ 97,211,330	\$ 9,388,111	\$ 38,476,295	\$ 213,720,403	\$ 562,139,057	\$ 1,262,064

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF THE CHANGE IN FUND
BALANCES OF PROPRIETARY FUNDS
TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2006

Net change in fund balances - total proprietary funds	\$ 4,784,008
Net change in fund balances - internal service funds	<u>(43,086)</u>
CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES	<u>\$ 4,740,922</u>

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

Year ended June 30, 2006

	Federal Low Rent Program	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities:							
Cash received from tenants	\$ 13,905,748	\$ 917,336	\$ 13,216,729	\$ -	\$ 4,604,608	\$ 32,444,531	\$ 41,543
Cash received from borrowers:	-	133,199	-	2,938,566	3,722,248	6,794,013	-
Principal repayments	-	76,228	-	9,392,062	1,325,603	10,794,793	-
Interest income	-	-	-	-	1,249,521	1,249,521	-
Cash received from net investment in financing lease	-	-	-	-	-	1,693,318	-
Cash received from sale of land	-	1,693,318	-	-	-	16,993,834	-
Cash received for conveyance taxes	-	-	-	-	-	16,993,834	-
Cash received for payments on mortgage-backed securities	-	-	-	38,317,938	-	38,317,938	-
Cash to borrower	-	-	-	-	(6,163,000)	(6,163,000)	-
Cash payments for acquisition of mortgage-backed securities	-	-	-	(23,881,663)	(3,444,471)	(23,881,663)	-
Cash payments for loan originations	-	-	-	(13,970,239)	(2,112,739)	(18,082,978)	-
Cash payments for interest	(19,483,101)	(1,939,890)	(178,537)	-	(3,583,088)	(25,473,004)	-
Cash payments to employees	(19,466,322)	(2,662,229)	(6,483,291)	(268,388)	(7,896,348)	(36,845,324)	(33,121)
Cash payments to suppliers	(534,704)	51,367	(31,965)	3,162	(357,689)	(1,159,829)	-
Cash (payments to) receipts from other funds	(374,114)	-	-	-	-	(374,114)	-
Payment in lieu of taxes	341,380	3,677,693	397,666	(993)	4,128,488	8,044,234	-
Other cash receipts (payments)	(23,601,113)	1,927,044	7,120,602	18,394,189	6,265,057	(94,221)	8,422
Net cash (used in) provided by operating activities	-	-	-	-	-	-	-
Cash Flows from Noncapital Financing Activities:							
Principal paid on revenue bond maturities and redemptions	-	-	-	(73,333,000)	-	(73,333,000)	-
Arbitrage rebate paid	-	-	-	(1,476,653)	-	(1,476,653)	-
Interest paid to the Department of Budget and Finance	(20)	-	-	-	(12,392)	(12,412)	-
HUD operating subsidy and others received	30,174,860	-	-	-	3,259,002	30,174,860	-
Cash received from borrower	-	-	-	-	188,536	3,259,002	-
Operating transfers in	-	-	-	-	(3,034)	(3,034)	-
Operating transfers out	-	-	-	-	-	-	-
Net cash provided by (used in) noncapital financing activities	30,174,840	-	-	(74,801,653)	3,421,112	(41,205,741)	-
Cash Flows from Capital and Related Financing Activities:							
Principal paid on revenue bond maturities and redemptions	-	-	(2,190,000)	-	(779,558)	(2,969,558)	-
Other financing source - new bond issuance	-	-	(4142,906)	-	6,163,000	6,163,000	-
Interest paid on revenue bonds	-	(38,632)	-	-	(849,029)	(4982,935)	-
Principal payments on notes payable	-	-	-	-	-	(38,632)	-
Principal payments on mortgage loans	-	(31,449)	-	-	(122,864)	(122,864,000)	-
Payments of interest	(11,168,805)	-	(8,376)	-	(163,681)	(193,139)	-
Payments for acquisition of property and equipment	-	-	-	-	(476,776)	(11,653,957)	(131,998)
Other	-	-	-	-	197,561	197,561	-
Net cash (used in) provided by capital and related financing activities	(11,168,805)	(70,081)	(6,541,282)	-	3,889,653	(13,690,315)	(131,998)
Subtotal entered forward	\$ (6,393,078)	\$ 1,836,963	\$ 779,320	\$ (64,607,464)	\$ 13,373,822	\$ (34,990,437)	\$ (145,576)

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (continued)

Year ended June 30, 2006

	Federal Low Rent Program	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Subtotal brought forward	\$ (6,375,078)	\$ 1,856,963	\$ 779,320	\$ (64,607,464)	\$ 13,573,822	\$ (54,090,437)	\$ (143,576)
Cash flows from investing activities:							
Purchases of investments	-	-	-	(75,080,939)	(1,404,012)	(76,484,951)	-
Proceeds from maturities of investments	2,450,000	-	-	103,648,180	2,041,402	108,131,582	-
Receipts of interest	183,992	2,962,651	992,480	5,273,080	4,686,196	14,199,799	40,322
Net increase in restricted deposits and funded reserves	-	-	-	-	(1,449,764)	(1,449,764)	-
Net cash provided by investing activities	2,633,992	2,962,651	992,480	33,834,321	4,273,822	44,096,666	40,322
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,961,086)	4,819,014	1,771,800	(36,773,143)	17,849,644	(10,293,771)	(103,254)
Cash and Cash Equivalents at July 1, 2005	13,379,332	76,269,614	30,887,143	33,933,627	58,646,247	213,313,963	1,233,446
Cash and Cash Equivalents at June 30, 2006	\$ 9,618,246	\$ 81,088,628	\$ 32,658,943	\$ 3,160,484	\$ 76,495,891	\$ 203,022,192	\$ 1,130,192
Reconciliation of Cash to Cash and Cash Equivalents:							
Cash	\$ 9,618,246	\$ 81,088,628	\$ 1,817,511	\$ 2,640,321	\$ 76,495,891	\$ 171,660,597	\$ 1,130,192
Money market funds, reported under investments	-	-	30,841,432	320,163	-	31,361,595	-
Cash and Cash Equivalents at June 30, 2006	\$ 9,618,246	\$ 81,088,628	\$ 32,658,943	\$ 3,160,484	\$ 76,495,891	\$ 203,022,192	\$ 1,130,192

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (continued)

Year ended June 30, 2006

	Federal Low Rent Program	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash flows from Operating Activities:							
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:							
Operating (loss) income	\$ (31,001,819)	\$ (653,280)	\$ 2,477,256	\$ (13,995,817)	\$ 11,983,902	\$ (31,189,758)	\$ (86,759)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:							
Net decrease in fair value of mortgage-backed securities	-	-	-	10,071,372	-	10,071,372	-
Depreciation	9,982,896	235,199	4,807,247	805	2,453,572	17,409,719	36,929
Provision for (recovery of) losses	-	(59,446)	43,364	-	172,876	136,794	-
Changes in assets and liabilities:							
Mortgage loans receivable	-	133,199	-	2,938,566	(7,809,408)	(4,737,643)	-
Accrued interest receivable on mortgages, notes and loans	-	9,876	-	-	(311,007)	(301,131)	-
Tenant receivables	67,368	(3,886)	(61,355)	-	(165,256)	(163,129)	-
Other receivables	97,823	318,369	9,992	-	(97,342)	328,842	-
Due from other funds	(213,267)	(7,648)	-	-	(974,444)	(1,195,359)	-
Due from State of Hawaii	-	1,417,134	-	-	2,257	1,419,391	-
Due from HCLD	-	-	-	-	(189,085)	(189,085)	-
Inventories	39,068	492,451	(434)	3,056	6,940	538,459	-
Prepaid expenses and other assets	-	-	-	-	275,031	277,653	-
Net investment in lease financing	-	-	-	-	31,417	31,417	-
Deposits held in trust	-	-	-	-	7,315	7,315	-
Investments in mortgage-backed securities	-	-	-	14,436,275	-	14,436,275	-
Accounts payable	(5,247,775)	13,905	(102,291)	(70,101)	466,533	(4,939,729)	58,232
Accrued interest payable	-	-	-	(3,012,865)	24,819	(2,988,046)	-
Other accrued expenses	988,686	8,671	(231)	(838)	23,829	1,020,117	-
Due to other funds	(311,437)	59,015	(31,965)	3,162	417,871	136,646	-
Due to HCLD	-	-	-	-	6,010	6,010	-
Security deposits	(2,656)	(17,883)	17,066	-	(62,992)	(66,465)	-
Deferred income	-	(2,853)	(38,147)	-	2,219	(38,681)	-
Deferred refunding costs	-	-	-	436,642	-	436,642	-
Deferred commitment fees	-	-	-	(616,068)	-	(616,068)	-
Deferred gain on sale of units and land	-	(24,800)	-	-	-	(24,800)	-
Estimated future costs of land sold	-	(10,979)	-	-	-	(10,979)	-
Net cash (used in) provided by operating activities	\$ (25,601,113)	\$ 1,927,044	\$ 7,120,602	\$ 10,194,189	\$ 6,263,657	\$ (94,221)	\$ 8,422

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Private Purpose Trusts
	<hr/>
ASSETS	
Cash	<hr/> \$ 288,364
TOTAL ASSETS	<hr/> \$ 288,364 <hr/>
LIABILITIES AND NET ASSETS	
Liabilities -	
Accounts payable	<hr/> \$ 232,833
Total liabilities	232,833
Net Assets -	
Held in trust	<hr/> 55,531
TOTAL LIABILITIES AND NET ASSETS	<hr/> \$ 288,364 <hr/>

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2006

	Private Purpose Trusts
	<hr/>
Additions - Interest	\$ 1,203
Deductions - Capital Outlays	<hr/> 268,454
CHANGE IN NET ASSETS	(267,251)
Net Assets at July 1, 2005	<hr/> 322,782
Net Assets at June 30, 2006	<hr/> <hr/> \$ 55,531

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

General

Chapter 201E, Hawaii Revised Statutes and Act 337, Session Laws of Hawaii (SLH) 1987, created the Housing Finance and Development Corporation (HFDC). The HFDC was created to perform housing finance, housing development and residential leasehold functions. The Hawaii Housing Authority, State of Hawaii (Authority) was organized pursuant to the provisions of Chapter 356, Hawaii Revised Statutes. The Authority was created to provide safe and sanitary dwelling accommodations for low and moderate-income residents of Hawaii.

In accordance with Act 350, SLH, 1997, effective July 1, 1998, the functions and employees of HFDC as well as those of the Authority and the Rental Housing Trust Fund were transferred to the newly created Housing and Community Development Corporation of Hawaii (Corporation). The purpose of Act 350, SLH, 1997, was to consolidate all state housing functions previously administered by the Authority, HFDC and the Rental Housing Trust Fund. The Corporation is a public body and a body corporate and politic and was, for administrative purposes only, considered to be a part of the State Department of Business, Economic Development and Tourism. In accordance with Act 92, Session Laws of Hawaii, 2003, effective July 1, 2003, administratively, the functions and employees of the Corporation were transferred to the State Department of Human Services.

For financial reporting purposes, the Corporation includes all funds that are controlled by or dependent on the Corporation's Board of Directors. Control by or dependence on the Corporation was determined on the basis of statutory authority and monies flowing through the Corporation to each fund.

HUD Subsidized Programs

The Federal Low-Rent Program and the various Section 8 funds are referred to collectively as the HUD Subsidized Programs and represent the contracts that the Corporation has entered into with the U.S. Department of Housing and Urban Development (HUD). The Federal Low-Rent Program is used to account for Corporation-owned housing projects, which are rented to low-income families.

HUD Subsidized Programs include subsidized housing assistance payments. Under these programs, low-income tenants lease housing units directly from private landlords rather than from the Corporation. Rental payment subsidies are paid directly to the private landlords by the Corporation using operating subsidies obtained from HUD.

The Federal Low-Rent Program includes all property and equipment, principally structures and improvements, acquired with contributions from HUD.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Policies

1. Basic Financial Statements

The accompanying financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments. This Statement established new financial reporting requirements for state and local governments in the United States of America. They required new information and restructured much of the information that governments have presented in the past. Comparability with reports issued in prior years was affected. The Corporation was required to implement these standards for the fiscal year ended June 30, 2002.

Other GASB Statements were required to be implemented in conjunction with Statement 34. Therefore, the Corporation implemented the following GASB Statements as of July 1, 2001: Statement 36, Recipient Reporting for Certain Shared Nonexchange Revenues, Statement 37, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments: Omnibus and Statement 38, Certain Financial Statement Note Disclosures.

The Corporation is part of the executive branch of the State. The financial statements of the Corporation, are intended to present the financial position, changes in financial position, and cash flows where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Corporation. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2006, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which include the Corporation’s financial activities.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements, the statement of net assets and the statement of activities, report information of all of the non-fiduciary activities of the Corporation. Governmental activities, which normally are supported by State allotments and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Government-Wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotments and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues. The Corporation does employ an indirect cost allocation system.

Net assets are restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Corporation's policy to use restricted resources first, then unrestricted resources as they are needed.

The fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are summarized into a single column. The Corporation's fiduciary funds are presented in the fund financial statements. Since by definition their assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities as obligations of the government, their funds are not incorporated into the government-wide statements.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

a. Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Interest expense of approximately \$20,481,000 was included as direct function expenses during the year ended June 30, 2006.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

b. Governmental Fund Financial Statements

The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. In applying the susceptible to accrual concept to intergovernmental revenues pursuant to GASB Statement 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when applicable requirements, including time requirements are met.

Principal revenue sources considered susceptible to accrual include federal grants and interest on investments. Some revenue items that are considered measurable and available to finance operations during the year from an accounting perspective are not available for expenditure due to the State's present appropriation system. These revenues have been accrued in accordance with generally accepted accounting principles since they have been earned and are expected to be collected within sixty days of the end of the period. Other revenues are considered to be measurable and available only when cash is received by the Corporation.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include employees' vested vacation, which is recorded as an expenditure when utilized or paid. The amount of unmatured long-term indebtedness related to accumulated vacation at June 30, 2006 has been reported in the government-wide financial statements.

c. Proprietary Funds and Fiduciary Funds

The financial statements of proprietary funds and fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Each proprietary fund has the option under GASB Statement 20, Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities that Use Proprietary Fund Accounting, to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Corporation has elected to not apply FASB statements after the applicable date.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

c. Proprietary Funds and Fiduciary Funds (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the Corporation's enterprise funds are interest income, rental income, land sales and conveyance tax revenues. Federal grants and interest income from investments are reported as nonoperating income.

4. Fund Accounting

The financial activities of the Corporation are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Corporation uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

GASB Statement 34 sets forth minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

a. Governmental Funds

General Fund – The general fund is the general operating fund of the Corporation. It is used to account for all financial activities except those required to be accounted for in another fund. This fund includes the Rent Supplement, Security/Beautification and the Homeless Program. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. These funds include Section 8 Housing Choice Voucher Program, Contract Administration, Drug Elimination Programs, Shelter Plus Care, Housing

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Fund Accounting (continued)

a. Governmental Funds (continued)

Opportunities for Persons with AIDS (HOPWA) Program, Emergency Shelter Grant Program, Residential Opportunities Self-Sufficient Programs (ROSS), Supportive Housing Program, Office of Juvenile Justice and Delinquency Program, Economic Development Initiative Special Project Grant Boys and Girls Club of Hawaii, and Self-Help Program.

Capital Projects Fund – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund type). These funds include the Capital Projects Fund, EDI Special Project Grant and Department of Labor Employment and Training Grant.

The Corporation reports the following major governmental funds:

- General Fund
- Capital Projects Fund
- Housing Voucher Program – accounts for federal contributions for housing assistance payments under the Housing Choice Voucher Program.
- Section 8 Contract Administration – accounts for federal contributions primarily for housing payments under the Project-Based Section 8 program.

b. Proprietary Funds

Enterprise Funds – These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to customers, or where sound financial management dictates that periodic determinations of results of operations are appropriate. The enterprise funds include the Revenue Bond Funds, Dwelling Unit Revolving Fund, and other funds.

Under the Revenue Bond Funds, proceeds from the bond issues are used to make below-market interest rate mortgage loans to persons and families of low to moderate income for the purchase of owner-occupied single-family and condominium dwellings, provide interim construction loans and permanent financing of affordable rental housing projects; and to

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Fund Accounting (continued)

b. Proprietary Funds (continued)

finance multifamily housing projects. These funds include the Single Family Mortgage Purchase Revenue Bond Fund, the Multifamily Revenue Bond Fund, the Hawaii Rental Housing System Revenue Bond Fund, and the University of Hawaii Faculty Housing Program Revenue Bond Fund.

The other funds include the Federal Low-Rent Program, Housing Revolving Fund, Housing for Elders Revolving Fund, Teacher Housing Revolving, Banyan Street Manor Project, Wilikina Apartments Project, Kekuiani Gardens Project, Kekumu at Waikoloa Project, Fee Simple Residential Revolving Fund, Rental Assistance Fund, Housing Finance Revolving Fund, Disbursing Fund, Rental Housing Trust Fund, Kuhio Park Terrace Resource Center, Federal Grant Program Fund, Grant-in-aid Fund, Hamakua and Waialua.

Internal Service Funds – These funds account for those activities, which provide goods or services primarily to the Corporation, rather than to external parties. In the government-wide statements, internal service funds are included with business-type activities. These funds include the Equipment Rental Fund and Vehicle Rental Fund.

The Corporation reports the following as major proprietary funds:

Federal Low-Rent Program – accounts for the proceeds from federal contributions for the development of rental property and rental income and federal operating subsidies from such properties.

Dwelling Unit Revolving Fund – accounts for state funds used for acquiring, developing, selling, leasing and renting residential, commercial and industrial properties, providing mortgage and interim financing and rental income and sales proceeds and interest earnings from the financing and investment of such funds.

Hawaii Rental Housing System Revenue Bond Fund – accounts for special funds to account for housing projects or systems of housing projects financed from the proceeds of bonds secured under the same trust indenture. The fund accounts for six multifamily rental housing projects located throughout the State of Hawaii.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Fund Accounting (continued)

b. Proprietary Funds (continued)

Single Family Mortgage Purchase Revenue Bond Fund – accounts for the proceeds for the issuance of bonds used to make below-market interest rate mortgage loans and the repayment, interest, and earnings from such loans and investment of such funds.

c. Fiduciary Funds

The private-purpose trust funds account for net assets held in a trustee capacity for others.

5. Capital Assets

Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities in the government-wide financial statements and proprietary funds financial statements. Capital assets are defined by the Corporation as land and those assets with estimated useful lives greater than one year and with an acquisition cost greater than:

Land improvements	\$100,000
Building and building improvements	\$100,000
Equipment	\$ 5,000

Purchased and constructed capital assets are valued at cost. Donated assets are recorded at their fair market value at the date of donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Capital Assets (continued)

Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds financial statements. The Corporation utilizes the straight-line method over the assets' estimated useful life. No depreciation is recorded for land and land improvements. Generally, the useful lives are as follows:

	Governmental Activities	Proprietary Fund and business-type activities
Building and building improvements	25 years	10 – 40 years
Equipment	7 years	1 – 10 years

6. Deferred Revenues

Deferred revenues at the fund level and government-wide level arise when the Corporation receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Corporation has a legal claim to the resources, the liability for deferred revenue is removed from the statement of net assets and revenue is recognized. Deferred revenues at June 30, 2006 consist primarily of Federal grant funds and deferred rental income.

7. Cash and Cash Equivalents

Cash and cash equivalents for the purpose of the statement of cash flows – proprietary funds, include all cash and investments with original purchased maturities of three months or less.

8. Investments

Investments in U.S. government securities, certificates of deposit and money market funds with maturities of one year or less when purchased are stated at cost. Non-participating investment contracts, generally repurchase agreements, are reported at cost. All other investments are reported at fair value.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

9. Inventories

Development in Progress and Dwelling Units

Inventories consist of developments in progress and units available for sale. Developments in progress include construction in progress and land held for future development related to the remaining portions of three master planned community projects – Kapolei (Oahu), La'i'opua (Hawaii), and Leial'i (Maui). Costs included in developments in progress relate to the infrastructure construction for these master planned communities. Units available for sale include constructed units, developed lots and repurchased units available for sale.

Inventories are stated at the lower of cost or estimated net realizable value. All estimated development, holding and disposition costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Estimated net realizable value represents management's estimates, based on management's plans and intentions, of sales price less development, holding and disposition costs, assuming that the development and disposition occurs in the normal course of business. Valuation allowances for estimated losses on units available for sale are provided when the total estimated carrying costs exceeds the estimated net realizable value.

The recognition of gain from the sale of units is dependent on a number of factors relating to the nature of the property sold, the terms of the sale and the future involvement of the Corporation in the property sold. If a real estate transaction does not meet established financial criteria, profit recognition is deferred and recognized under the installment or cost recovery method until such time as the criteria are met.

Material and Supplies

In the governmental funds, the cost of inventories is recorded as an expenditure when consumed.

10. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and service type transactions are classified as "due to and from other funds." Interfund receivables and payables between funds (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See note R for details of interfund transactions, including receivables and payables at year end.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

11. HUD Annual Contributions

The Corporation receives annual contributions and subsidies from HUD for operating the Corporation's housing assistance payment programs and the development and operation of low-income housing projects. The Corporation also receives annual subsidies from HUD for housing assistance payments and operating deficits incurred in the operation of the programs. Annual subsidies recorded in the proprietary fund types are recognized as nonoperating revenue when realized and earned and are accounted for in the statement of revenues, expenses and changes in fund net assets – proprietary funds as HUD operating subsidy.

12. Amortization

Issuance costs of revenue bonds are deferred and amortized ratably over the term of the bond principal outstanding.

13. Vacation

Employees hired prior to July 2, 2001 are credited with vacation at a rate of 168 hours per calendar year. Employees hired on or subsequent to July 2, 2001 are credited with vacation which ranges from 96 hours to 192 hours per calendar year depending on years of service. Accumulation of such vacation credits is limited to 720 hours at calendar year end and is convertible to pay upon termination of employment. Liabilities for accumulated unpaid vacation are accrued at the end of each accounting period utilizing current salary rates. Such vacation credits are recorded as accrued wages and employee benefits payable in the government-wide and the enterprise funds financial statements at the balance sheet date. Accumulated unpaid vacation estimated to be used or paid during the next year is approximately \$711,000. The change in accumulated unpaid vacation during the year is approximately as follows:

<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2006</u>
\$2,497,951	\$1,072,405	\$1,061,467	\$2,508,889

14. Allocated Costs

The Corporation provides certain administrative services to its various funds. The cost of these services is allocated to the funds based on estimates of benefits provided to the funds.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

15. Reservations of Fund Balances

The general and capital projects fund balances are reserved for continuing appropriations, which are comprised of encumbrances and unencumbered allotment balances. Encumbrances represent outstanding commitments, which generally are liquidated in the subsequent fiscal year.

Unencumbered allotment balances represent amounts that have been released and made available for encumbrance or expenditure and are legally segregated for a specific future use.

16. Risk Management

Liabilities related to certain types of losses (including torts, theft of, damage to, or destruction of assets, errors or omissions, natural disasters and injuries to employees) are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

17. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE B – BUDGETING AND BUDGETARY CONTROL

The budget of the Corporation is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services and activities to be provided during the fiscal year, (2) the estimated revenues available to finance the operating plan, and (3) the estimated spending requirements of the operating plan. The budget represents a process through which financial policy decisions are made, implemented and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected as budgeted revenues in the accompanying Required Supplementary Information – Budgetary Comparison Schedule are estimates as compiled by the Corporation and reviewed by the Department of Budget and Finance. Budgeted expenditures are derived primarily from acts of the State Legislature and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes and other specific appropriation acts in various Session Laws of Hawaii.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE B – BUDGETING AND BUDGETARY CONTROL (continued)

Expenditures of these appropriated funds are made pursuant to the appropriations in the biennial budget as amended by subsequent supplemental appropriations. Budgetary control is maintained at the departmental level. Budget revisions and interdepartmental transfers may be affected with certain executive and legislative branch approvals.

The general fund and certain special revenue funds have legally appropriated annual budgets. The final legally adopted budget in the accompanying Required Supplementary Information – Budgetary Comparison Schedule represent the original appropriations, transfers and other legally authorized legislative and executive changes.

To the extent not expended or encumbered, general fund and special revenue funds appropriations generally lapse at the end of the fiscal year or grant period for which the appropriations were made. The State Legislature or federal government specifies the lapse dates and any other contingencies that may terminate the authorization for other appropriations. Known lapses occurring in the year of appropriation, if any, are included in the amended budgets, and are netted against revenues in the accompanying Required Supplementary Information – Budgetary Comparison Schedule.

A comparison of both the original budget and the final budget to the actual revenues and expenditures of the general and certain special revenue funds are presented in the accompanying Required Supplementary Information – Budgetary Comparison Schedule. Differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with generally accepted accounting principles (GAAP) are mainly due to revenues and expenditures of unbudgeted funds and the different methods used to recognize resource uses. For budgeting purposes, resource uses are recognized when cash disbursements are made or funds are encumbered. For financial statements presented in accordance with GAAP, expenditures are recognized when incurred and encumbrances are not reported as resources used.

A summation of the differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with GAAP for the general and certain special revenue funds for the year ended June 30, 2006 is set forth in the Required Supplementary Information.

NOTE C – CASH

The State maintains a cash pool that is available to all funds. The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance may invest any monies of the State, which in the Director's judgment are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited with approved financial institutions or invested in the State Treasury

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE C – CASH (continued)

Investment Pool. Cash accounts that participate in the investment pool accrue interest based on the average weighted cash balances of each account.

The State requires that the depository banks pledge, as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

At June 30, 2006, total cash reported in the Statement of Net Assets is \$190,578,308, which consisted of the following:

	Governmental	Business-Type	Total
State pool and petty cash	\$ 12,685,284	\$ 157,647,441	\$ 170,332,725
Cash in bank (book balance)	5,002,649	12,187,235	17,189,884
	17,687,933	169,834,676	187,522,609
Assets held by trustees	-	2,956,113	2,956,113
Deposits held in trust	-	99,586	99,586
Total Cash	<u>\$ 17,687,933</u>	<u>\$ 172,890,375</u>	<u>\$ 190,578,308</u>

Bank balance of cash in bank was approximately \$21,559,573, of which \$355,695 was covered by federal depository insurance or collateral held by the Corporation or Corporation's agent in the Corporation's name; \$21,203,878 by collateral held by the pledging financial institution's trust department or agent in the Corporation's name, and \$0 was uninsured or uncollateralized.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE D – INVESTMENTS

Investments at June 30, 2006 are summarized as follows:

	Maturity (in years)					Fair Value
	0-2	2 - 5	5 -- 10	10-20	>20	
Government sponsored Enterprises	\$ —	\$ —	\$ —	\$ 6,369,338	\$ —	\$ 6,369,338
Mortgage-backed securities	6,664,599	25,542,273	80,059,444	66,498,985	—	178,765,301
Repurchase agreements	—	—	—	—	115,823,603	115,823,603
Private debt obligations	—	—	—	—	556,090	556,090
Guarantee investment Contracts	—	—	—	—	98,630	98,630
	<u>\$ 6,664,599</u>	<u>\$25,542,273</u>	<u>\$80,059,444</u>	<u>\$72,868,324</u>	<u>\$ 116,478,323</u>	
Money market funds						<u>31,361,595</u>
Total investments						<u>\$ 332,974,557</u>
				Assets held by trustees under revenue bond programs		\$ 326,593,930
				Investments – noncurrent		<u>6,380,627</u>
				Total Investments		<u>\$ 332,974,557</u>

Interest Rate Risk: The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: The Revenue Bond Funds' trust indentures authorize the trustees to invest in certificates of deposit, money market funds, U. S. government or agency obligations, and repurchase agreements. The Corporation has no investment policy that would further limit its investment decisions. As of June 30, 2006, all investments except the private debt obligations are rated AA to AAA by Moody's, Fitch and Standard & Poors. The private debt obligations are rated BAA to A.

Concentration of Credit Risk: The Corporation places no limit on the amount the Corporation may invest in any one issuer. More than 5 percent of the Corporation's investments are in the Federal National Mortgage Association, the Government National Mortgage Association, the Societe Generale, and the First American Government Obligation Fund. These investments are 47 percent, 9 percent, 25 percent, and 9 percent, respectively, of the Corporations total investments.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE D – INVESTMENTS (continued)

Custodial Risk: For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that in the possession of an outside party. The Corporation's investments are uninsured and unregistered for which the securities are held by the Corporation's trust agent in the Corporation's name. The repurchase agreements are collateralized with securities held by the pledging financial institution's collateral agent but not in the Corporation's name. The underlying securities for repurchase agreements are required to be U. S. government or agency obligations of an equal or greater market value. The Corporation monitors the market value of these securities and obtains additional collateral when appropriate.

NOTE E – MORTGAGE LOANS AND NOTES AND LOANS RECEIVABLE

Mortgage loans and other notes and loans receivable at June 30, 2006 are comprised of the following:

	Mortgage Loans	Notes and Loans
Mortgage loans bearing interest at 0.0% to 13.5%, maturing at various dates through 2046	\$ 73,469,589	\$ —
Promissory note bearing interest at 9%, due 2010	—	426,100
Less current maturities	1,296,440	—
	<u>\$ 72,173,149</u>	<u>\$ 426,100</u>

Mortgage and development loans are collateralized by real property. The Revenue Bond Funds' mortgage loans are also subject to primary mortgage and mortgage pool insurance coverage that, subject to aggregate loss limitations, reimburses the Corporation for all losses incurred, if any, from the disposition of real property acquired through foreclosure.

The promissory note receivable from a developers totaling approximately \$426,000 is uncollateralized. The promissory note provides the Corporation with the option to acquire certain improvements constructed by the developer on January 1, 2010. If the Corporation does not exercise the option, the entire principal balance and accrued interest shall be paid over a period of 15 years in monthly installments necessary to fully amortize the outstanding amount of this note.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE F – NET INVESTMENT IN FINANCING LEASE

University of Hawaii Faculty Housing Program Revenue Bond Fund

On November 1, 1995, the Corporation entered into a lease and sublease agreement (Agreement) with the Board of Regents, University of Hawaii (University). Under the Agreement, the Corporation leases the land under the housing project from the University for an annual rent of \$1 and then subleases the leased land, buildings and improvements and equipment back to the University. The University will make certain lease rental payments to the Corporation, including amounts sufficient to pay the principal, premium, if any, and interest on the bonds as the same become due and payable. The Agreement expires on June 30, 2026. Upon expiration of the Agreement, the ownership of the buildings and improvements and equipment will revert to the University.

The following lists the components of the net investment in direct financing lease as of June 30, 2006:

Total minimum lease payments to be received	\$ 27,588,921
Less unearned interest income	<u>(11,225,841)</u>
Net investment in direct financing lease	16,363,080
Less current portion	<u>(499,184)</u>
	<u><u>\$ 15,863,896</u></u>

The future approximate minimum lease payments to be received through 2011 and in five-year increments thereafter are as follows:

Year ending June 30,	
2007	\$ 1,235,000
2008	810,000
2009	810,000
2010	810,000
2011	810,000
2012 – 2016	4,049,000
2017 – 2021	8,273,000
2022 – 2026	<u>10,791,921</u>
	<u><u>\$ 27,588,921</u></u>

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE G – REVENUE BOND FUNDS – RESERVE REQUIREMENTS

Under the trust indentures between the Corporation and the trustees for the Single Family Mortgage Purchase Revenue Bonds, investment assets and cash are required to be held by the trustees in various accounts and funds, including debt service reserve accounts, loan funds and mortgage loan reserve funds. The uses of these assets are restricted by the terms of the indentures.

At June 30, 2006, the following debt service reserves and mortgage loan reserves required by the indentures were included in assets held by trustees under Revenue Bond Programs.

	Single Family Mortgage Purchase
Debt service reserve requirements	\$ 23,574,000
Mortgage loan reserve requirements	<u>1,681,000</u>
	<u>\$ 25,255,000</u>

At June 30, 2006, approximately \$25 million and \$5.9 million of investment securities, at cost, were being held in the debt service reserve funds and mortgage loan reserve funds, respectively.

Under the trust indenture agreement between the Corporation and the trustee for the Hawaii Rental Housing System revenue bond, the Corporation is required to provide net revenues (as defined in the trust indenture agreement) together with lawfully available funds of at least 1.25 times the aggregate debt service on outstanding bonds during the bond year. Additionally, the Corporation is to provide net revenues (as defined in the trust indenture agreement) of at least 1.10 times the aggregate debt service on outstanding bonds during the bond year. At June 30, 2006, the Hawaii Rental Housing System Revenue Bond Fund provided net revenues (as defined in the trust indenture agreement) together with lawfully available funds of 5.23 times the aggregate debt service on outstanding bonds during the year, respectively, and net revenues (as defined in the trust indenture agreement) of 1.29 times the aggregate debt service on outstanding bonds during the year, respectively.

The trust indenture agreement also requires that the mortgage loan reserves for these Revenue Bond Funds be funded from other than bond proceeds and, accordingly, the reserves have been funded by commitment fees at June 30, 2006.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE H – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 2,373,410	\$ –	\$ –	\$ 2,373,410
Construction in progress	21,906,834	686,899	(4,446,007)	18,147,726
Total capital assets not being depreciated	24,280,244	686,899	(4,446,007)	20,521,136
Capital assets, being depreciated:				
Building and improvements	34,670,806	2,800,185	–	37,470,991
Equipment	1,096,574	–	–	1,096,574
Total capital assets being depreciated	35,767,380	2,800,185	–	38,567,565
Less accumulated depreciation for:				
Building and improvements	17,779,549	1,150,397	–	18,929,946
Equipment	1,072,977	10,767	–	1,083,744
Total accumulated depreciation	18,852,526	1,161,164	–	20,013,690
Governmental activities, net	<u>\$ 41,195,098</u>	<u>\$ 2,325,920</u>	<u>\$ (4,446,007)</u>	<u>\$ 39,075,011</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 44,145,561	\$ –	\$ (142,404)	\$ 44,003,157
Construction in progress	44,688,052	11,157,827	(28,743,160)	27,102,719
Total capital assets not being depreciated	88,833,613	11,157,827	(28,885,564)	71,105,876
Capital assets being depreciated:				
Building and improvements	566,942,088	31,150,100	(1,823,491)	596,268,697
Equipment	12,021,018	203,013	(252,572)	11,971,459
Total capital assets being depreciated	578,963,106	31,353,113	(2,076,063)	608,240,156
Less accumulated depreciation for:				
Building and improvements	289,752,847	17,419,013	(1,724,860)	305,466,118
Equipment	19,452,459	117,635	(132,775)	19,437,310
Total accumulated depreciation	309,205,306	17,536,648	(29,103,997)	324,903,437
Business-type activities capital assets, net	<u>\$358,591,413</u>	<u>\$ 24,974,293</u>	<u>\$(29,103,997)</u>	<u>\$354,442,595</u>

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE H – CAPITAL ASSETS (continued)

Current-period depreciation expense was charged to function as follows:

Governmental activities	
Homeless Service and Assistance Program	\$ 526,064
Rental Housing and Assistance Program	<u>635,100</u>
Total depreciation expense – governmental activities	<u>1,161,164</u>
Business-type activities	
Rental Assistance Program	9,982,896
Housing Development Program	255,199
Single-family Mortgage Loan Program	805
Rental Housing Programs	7,260,819
Others	<u>36,929</u>
Total depreciation expense – business-type activities	<u>17,536,648</u>
Total depreciation expense	<u><u>\$18,697,812</u></u>

At June 30, 2006, capital assets for the proprietary funds consisted of the following:

	Proprietary Fund Type						
	Enterprise Funds				Internal Service		Total
	Revenue Bond Funds	Federal Low-Rent Fund	Dwelling Unit Revolving Fund	Other Funds	Equipment Rental	Vehicle Rental	
Land	\$ 16,186,850	\$ 13,089,005	\$ 3,775,631	\$ 10,951,671	\$ —	\$ —	\$ 44,003,157
Buildings and Improvements	129,911,799	364,552,486	8,261,174	93,543,238	—	—	596,268,697
Equipment, furniture and fixtures	1,502,121	6,784,558	208,796	1,449,672	1,517,825	508,487	11,971,459
Construction in Progress	—	27,102,719	—	—	—	—	27,102,719
	<u>147,600,770</u>	<u>411,528,768</u>	<u>12,245,601</u>	<u>105,944,581</u>	<u>1,517,825</u>	<u>508,487</u>	<u>679,346,032</u>
Less accumulated Depreciation	<u>66,010,230</u>	<u>216,388,548</u>	<u>5,812,080</u>	<u>34,848,145</u>	<u>1,497,009</u>	<u>347,425</u>	<u>324,903,437</u>
Net property and Equipment	\$ 81,590,540	\$ 195,140,220	\$ 6,433,521	\$ 71,096,436	\$ 20,816	\$ 161,062	\$ 354,442,595

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE I – MORTGAGE AND NOTES PAYABLE

Mortgage Payable

The Banyan Street Manor Project entered into a mortgage note agreement in October 1976 in the amount of \$1,727,800 with USGI, Inc. (insured by HUD). On September 1, 1996, Greystone Servicing Corporation, Inc. (GSCI) became the new servicing agent and mortgagee. The mortgage loan bears interest at 7.5 percent and is collateralized by the rental property. Principal and interest are payable in monthly installments of \$11,370, maturing January 1, 2018. At June 30, 2006, the mortgage payable balance was \$553,803. The balance is expected that remaining balance will be paid off by June 30, 2011.

The Kekuilani Gardens Project (Kekuilani) entered into a mortgage agreement in December 1996 in the amount of \$5,213,614 with the U.S. Department of Agriculture and Rural Development. The mortgage loan bears interest at 7.25 percent and is collateralized by the Kekuilani Gardens Project. Principal and interest are payable in monthly installments of \$11,509 and matures on December 1, 2046. At June 30, 2006, the mortgage payable balance was \$5,082,800.

Kekuilani also entered into an interest credit and rental assistance agreement in December 1996 with the U.S. Department of Agriculture and Rural Development, which reduces Kekuilani's principal and interest payments. During the period, Kekuilani realized approximately \$256,000 of interest credit reducing the interest expense from approximately \$369,000 to \$113,000.

In addition, Kekuilani entered into a mortgage agreement in December 1996 in the amount of \$696,267 with the Rental Housing Trust Fund. The mortgage loan bears interest at 1 percent and is collateralized by the Kekuilani Gardens Project. Principal and interest are payable in monthly installments of \$1,475 and matures on January 1, 2047. At June 30, 2006, the mortgage payable balance was \$583,216.

Notes Payable

The Corporation has three mortgage notes payable to the U.S. Department of Agriculture, Farmers Home Administration (FmHA). Two notes were originated in August 1976, and are payable in combined monthly installments of \$2,207, including interest at 1 percent, with the final combined payment due in August 2009. The third note was originated in October 1994, and is payable in monthly installments of \$1,315, including interest at 1 percent, due in October 2027. The notes are secured by property and rental receipts. Notes payable to the U.S. Department of Agriculture FmHA as of June 30, 2006 totaled \$340,129.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE I – MORTGAGE AND NOTES PAYABLE (continued)

Notes Payable (continued)

Notes payable also consists of a \$171,327 unsecured promissory note payable to an individual (the former owner of Banyan Street). The entire principal balance plus accrued interest, which accrues at the same rate as the residual receipt funds held by GSCI, Inc. (approximately 1.0% for the year ended June 30, 2006), is due within 45 days of full payment of the 7.5% GSCI, Inc. mortgage note collateralized by HUD which matures on January 1, 2018.

Mortgage and notes payable activity during the year was as follows:

	Balance at July 1, 2005	Addition	Reductions	Balance at June 30, 2006	Less Current Portion	Long Term Portion
Mortgage payable	\$ 6,342,924	\$ -	\$ 123,105	\$ 6,219,819	\$ 131,639	\$ 6,088,180
Notes payable	378,761	171,327	38,632	511,456	39,019	472,437
Total	<u>\$ 6,721,685</u>	<u>\$ 171,327</u>	<u>\$ 161,737</u>	<u>\$ 6,731,275</u>	<u>\$ 170,658</u>	<u>\$ 6,560,617</u>

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE I – MORTGAGE AND NOTES PAYABLE (continued)

The approximate debt service requirements of mortgage and notes payable through 2011 and in five-year increments thereafter to maturity are as follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 171,000	\$ 158,000	\$ 329,000
2008	180,000	149,000	329,000
2009	165,000	138,000	303,000
2010	175,000	127,000	302,000
2011	167,000	116,000	283,000
2012-2016	313,000	518,000	831,000
2017-2021	398,000	433,000	831,000
2022-2026	517,000	314,000	831,000
2027-2031	778,000	148,000	926,000
2032-2036	839,000	12,000	851,000
2037-2041	1,174,000	6,000	1,180,000
2042-2046	1,652,000	2,000	1,654,000
2047	202,275	-	202,275
	<u>\$ 6,731,275</u>	<u>\$ 2,121,000</u>	<u>\$ 8,852,275</u>

NOTE J – REVENUE BONDS PAYABLE

Through June 30, 2006, approximately \$2,129,898,000 of revenue bonds have been issued. The revenue bonds are payable from and secured solely by the revenues and other monies and assets of the Revenue Bond Funds and other assets of the Corporation pledged under the indentures.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE J – REVENUE BONDS PAYABLE (continued)

Revenue bonds payable at June 30, 2006 consist of the following issuances:

Single Family Mortgage Purchase revenue bonds:

1997 Series A:	
Term bonds maturing annually through 2031 (5.00% to 5.75%)	\$ 15,055,000
1997 Series B:	
Serial bonds maturing annually through 2010 (4.75% to 5.00%)	9,820,000
Term bonds maturing in 2011 through 2018 (5.45%)	29,405,000
	<u>39,225,000</u>
1998 Series A:	
Serial bonds maturing annually through 2014 (4.75% to 5.25%)	11,525,000
Term bonds maturing annually through 2031 (4.85% to 5.40%)	38,155,000
	<u>49,680,000</u>
1998 Series B:	
Term bonds maturing in 2019 through 2029 (5.30%)	11,085,000
1998 Series C:	
Term bonds maturing in 2019 through 2021 (5.35%)	4,060,000
2000 Series A:	
Term bonds maturing in 2021 through 2027 (6.275%)	25,000,000
2002 Series A:	
Serial bonds maturing annually through 2013 (3.55% to 4.80%)	4,200,000
Term bonds maturing in 2014 through 2034 (4.40% to 5.38%)	19,050,000
Placed bonds maturing in 2023 through 2034 (5.38%)	3,525,000
	<u>26,775,000</u>
2002 Series B:	
Term bonds maturing in 2026 through 2029 (5.25%)	1,810,000
2005 Series A:	
Term bonds maturing in 2027 through 2037 (5.00%)	<u>7,920,000</u>
Single Family Mortgage Purchase revenue bonds subtotal carried forward	\$180,610,000

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE J – REVENUE BONDS PAYABLE (continued)

Single Family Mortgage Purchase revenue bonds subtotal brought forward	<u>\$180,610,000</u>
2005 Series B:	
Serial bonds maturing annually through 2016 (2.85% to 3.90%)	15,810,000
Term bonds maturing in 2016 through 2027 (3.70% to 4.30%)	<u>39,320,000</u>
	<u>55,130,000</u>
Total Single Family Mortgage Purchase revenue bonds	<u>\$235,740,000</u>
Hawaii Rental Housing System revenue bonds:	
2004 Series A:	
Serial bonds maturing in 2007 through 2014 (2.10% to 3.70%)	\$ 14,150,000
Term bonds maturing in 2015 through 2034 (3.80% to 4.75%)	<u>67,455,000</u>
	<u>81,605,000</u>
2004 Series B-	
Term bonds maturing annually through 2034 (3.16%)	<u>22,500,000</u>
Total Hawaii Rental Housing System revenue bonds	<u>\$104,105,000</u>
Multifamily Housing revenue bonds:	
1999 Series (Manana Gardens Project) – term bond maturing annually through 2035 (6.30%)	\$ 3,560,000
2000 Series (Sunset Villas Project) – term bonds maturing annually through 2036 (5% to 5.75%)	26,025,000
2002 Series (Hale Hoaloha Project) – mortgage installment bonds maturing annually through 2028 (6.75% until 2012 and 7.75% thereafter)	1,671,650
2005 Series (Kauhale Olu Project):	
Mortgage Installment bonds maturing in 2008 (6.75%)	665,000
Mortgage Installment bonds maturing in 2036 (6.75%)	<u>5,500,000</u>
	<u>6,165,000</u>
Total Multifamily Housing revenue bonds	<u>\$ 37,421,650</u>

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE J – REVENUE BONDS PAYABLE (continued)

University of Hawaii Faculty Housing Program revenue bonds:

1995 Series:

Serial bonds maturing in 2007 (5.00%)	\$ 415,000
Term bonds maturing annually from 2008 through 2026 (5.70% and 5.75%)	<u>14,255,000</u>

Total University of Hawaii Faculty Housing Program revenue bonds	<u>\$ 14,670,000</u>
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Total Revenue Bonds:

Revenue Bonds	\$ 391,936,650
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Less deferred refunding amount (difference between reacquisition price and net carrying value of old debt)	<u>3,334,767</u>
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Total Revenue Bonds	388,601,883
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Less current portion	<u>9,565,779</u>
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	<u>\$ 379,036,104</u>
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Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE J – REVENUE BONDS PAYABLE (continued)

Interest on the Single Family Mortgage Purchase, Multifamily Housing, University of Hawaii Faculty Housing Program, and Hawaii Rental Housing System revenue bonds is payable semi-annually.

The Single Family Mortgage Purchase and Hawaii Rental Housing System revenue bonds with designated maturity dates, the Multifamily Housing revenue bonds and the University of Hawaii Faculty Housing Program revenue bonds may be redeemed at the option of the Corporation commencing in 2001 for the Single Family Mortgage Purchase 1991 Series, 2004 for the Single Family Mortgage Purchase 1994 Series, 2007 for the Single Family Mortgage Purchase 1997 Series, subject to a redemption premium which ranges from 2 percent to zero; 2008 for the Single Family Mortgage Purchase 1998 Series, subject to a redemption premium that ranges from 1.5 percent to zero; 2010 for the Single Family Mortgage Purchase 2000 Series, and 2014 for the Single Family Mortgage Purchase 2002 Series, 2005 for the Hawaii Rental Housing System 2004 Series, 2010 for the Multifamily Housing 1999 Series, 2011 for the 2000 Series, subject to a redemption premium which ranges from 2 percent to zero; and 2005 for the University of Hawaii Faculty Housing Program 1995 Series subject to redemption premiums that range from 1 percent to zero. The revenue bonds may also be redeemed without premium prior to maturity, at the option of the Corporation, as funds become available from undisbursed bond proceeds, principal payments and prepayments of mortgages, excess amounts in the debt service reserve account or excess revenues (as defined in the bond indentures).

During the year ended June 30, 2006, early redemptions totaled \$67,700,000.

Revenue bonds activity during the year was as follows:

	Balance at July 1, 2005	Additions	Reductions	Balance at June 30, 2006
Single Family Mortgage Purchase	\$309,065,000	\$ -	\$ 73,325,000	\$235,740,000
Multifamily Housing	31,641,208	6,165,000	384,558	37,421,650
Hawaii Rental Housing System	106,295,000	-	2,190,000	104,105,000
University of Hawaii Faculty Housing Program	15,065,000	-	395,000	14,670,000
	462,066,208	6,165,000	76,294,558	391,936,650
Less deferred refunding amount	3,846,604	-	511,837	3,334,767
Total	<u>\$458,219,604</u>	<u>\$ 6,165,000</u>	<u>\$ 75,782,721</u>	<u>\$388,601,883</u>

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE J – REVENUE BONDS PAYABLE (continued)

The approximate annual debt service requirements through 2011 and in five-year increments thereafter to maturity for revenue bonds are as follows:

Year ending June 30:	Principal	Interest	Total
2007	\$ 9,566,000	\$ 19,088,000	\$ 28,654,000
2008	10,011,000	18,684,000	28,695,000
2009	9,843,000	18,295,000	28,138,000
2010	11,885,000	17,879,000	29,764,000
2011	11,098,000	17,387,000	28,485,000
2012 – 2016	67,614,000	78,243,000	145,857,000
2017 – 2021	71,229,000	61,069,000	132,298,000
2022 – 2026	93,096,000	41,300,000	134,396,000
2027 – 2031	68,845,000	17,706,000	86,551,000
2032 – 2036	38,205,000	3,455,000	41,660,000
2037 – 2039	545,000	14,000	559,000
	<u>\$ 391,937,000</u>	<u>\$ 293,120,000</u>	<u>\$ 685,057,000</u>

Arbitrage Rebate

In order to ensure the exclusion of interest on the Corporation's Hawaii Rental Housing System revenue bonds and Single Family Mortgage Purchase 1989 Series A, 1990 Series A, 1991 Series A and B and 1994 Series A and B revenue bonds from gross income for federal income tax purposes, the Corporation calculates rebates due to the U. S. Treasury annually. The rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. At June 30, 2006, the Corporation determined that \$3,015,012 of rebates was due to the U. S. Treasury.

NOTE K – CONDUIT DEBT OBLIGATIONS

From time to time, the Corporation has issued Revenue Bonds to provide financial assistance to private sector entities for the acquisition and rehabilitation of multifamily rental housing developments. These bonds are special limited obligations of the Corporation, payable solely from and secured by a pledge of payments on the mortgage-backed securities. Neither the Corporation, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. The bonds are reported as liabilities in the accompanying financial statements along with the related assets.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE K – CONDUIT DEBT OBLIGATIONS (continued)

As of June 30, 2006, there were four series of Conduit Revenue Bonds outstanding, with an aggregate principal amount payable of \$37,421,650 reported as Multifamily Housing Revenue bonds.

NOTE L – LEASES

Lease Commitments

The Corporation leases land, buildings, and improvements under various noncancellable operating leases expiring at various dates through 2056. The land lease for the Banyan Street Manor Project contains the option to purchase the fee-simple interest in the land at any time for a specified percentage of fair market value at the time of purchase.

The minimum rental commitments under operating leases through 2011 and in five-year increments thereafter are as follows:

Year ending June 30,	
2007	\$ 640,000
2008	652,000
2009	571,000
2010	492,000
2011	505,000
2012 – 2016	2,732,000
2017 – 2021	3,119,000
2022 – 2026	3,332,000
2027 – 2031	3,878,000
2032 – 2036	3,639,000
2037 – 2041	4,294,000
2042 – 2046	4,367,000
2047 – 2051	5,153,000
2052 – 2056	5,240,000
	<u>\$ 38,614,000</u>

Rent expense for the year ended June 30, 2006 totaled approximately \$568,000.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE L – LEASES (continued)

Lease Rentals

The Corporation leases land with a carrying value of approximately \$2,653,000 to various developers and home buyers. The leases are generally for 55 years with the last 25 years' lease rent negotiated based on the fair market value of the land. Rent income for the year ended June 30, 2006 was approximately \$361,000.

The future minimum lease rent from these operating leases at June 30, 2006 is as follows:

Year ending June 30:	
2007	\$ 330,000
2008	309,000
2009	307,000
2010	305,000
2011	304,000
2012 – 2016	1,570,000
2017 – 2021	1,537,000
2022 – 2026	<u>1,206,000</u>
	<u>\$ 5,868,000</u>

NOTE M – COMMITMENTS AND CONTINGENCIES

Loan Guarantee

The Corporation has guaranteed up to \$40,000,000 of the mortgage loans sold by it to the Employees' Retirement System of the State of Hawaii (ERS). Upon the 120th day of any delinquency or default, the Corporation is obligated to cure the arrearage of principal and interest or buy back the delinquent loan. At June 30, 2006, the outstanding balance of mortgage loans that have been sold to the ERS which are covered by the loan guarantee was approximately \$155,000. At June 30, 2006, notes and loans receivables did not include any delinquent loans purchased back from the ERS.

Construction Contracts

At June 30, 2006, the Dwelling Unit Revolving Fund had outstanding commitments to expend approximately \$26,551,000 for the construction and renovation of housing projects and there were no outstanding commitments to fund interim loans for various projects.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

The Capital Projects Fund and the Fiduciary Funds had outstanding construction contract commitments of approximately \$4,939,000 at June 30, 2006.

Development Costs

The Kapolei development project primarily consists of eight residential villages and certain commercial parcels spread over approximately 888 acres of land. As of June 30, 2006, all but 18 acres of residential and 43 acres of commercial land has been substantially developed and sold. The estimated future cost of land sold relates primarily to the completion of certain off-site improvements at this project. This liability reflects amounts charged to the cost of land sold in excess of costs incurred. Management believes that the future revenues from this project will meet or exceed the net amount of this liability and the remaining costs to be incurred on the project.

Additionally, the Corporation has been in the process of developing two master planned communities on the neighbor islands – the Leialii project located in the West Maui area and the Laiopua project located in North Kona. As large portions of these projects are located on public trust (“ceded”) land owned by the State of Hawaii, and subject to lawsuits seeking to prevent the Corporation’s sale or transfer of this land, these projects have been delayed indefinitely. As of June 30, 2006, the Corporation has remaining development rights related to the second phase of the Leialii project and 57 acres of the Laiopua project. Development costs related to the Leialii project were approximately \$18.9 million at June 30, 2006. Management believes that the future revenues from this project will meet or exceed the aggregate of the development costs at June 30, 2006 and the remaining costs to be incurred.

Additionally, the Corporation has other developments costs and dwelling units of approximately \$2.1 million at June 30, 2006.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Torts

The Corporation is involved in various actions, the outcome of which, in the opinion of management and the Attorney General, will not have a material adverse effect on the Corporation's financial position except for the OHA lawsuit described below. Losses, if any, are either covered by insurance or will be a liability against the State of Hawaii.

Workers' Compensation Policy

The Corporation has a retrospectively rated workers' compensation insurance policy. Based on available claim experience information, the minimum premium accrued for financial statement reporting purposes approximates the Corporation's ultimate workers' compensation cost.

Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limitation. It may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawaii (ERS). Accumulated sick leave at June 30, 2006 amounted to approximately \$6,122,000.

Deferred Compensation Plan

In 1984, the State established a deferred compensation plan, which enables State employees to defer a portion of their compensation. The State Department of Human Resources Development has the fiduciary responsibility of administering the plan. Deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

Litigation

In November 1994, the Office of Hawaiian Affairs (OHA) filed a claim against the Corporation seeking declaratory and injunctive relief and for monetary damages pursuant to Sections 632-1 and 66-1 of the Hawaii Revised Statutes. The claim relates to certain ceded lands located in Lahaina, Maui. OHA seeks the following relief: (1) barring the Corporation from conveying and alienating the subject land from the public land trust and (2) finding any conveyance to a third party not an agency of the State or its political subdivision in violation of the Hawaii State Constitution.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Litigation (continued)

In its claim, OHA also alleges that the Corporation is in violation of the Hawaii Revised Statutes Section 10-3.6 and Act 318, SLH 1992. In 1992, the Legislature enacted Act 318, which sets forth a plan to compensate OHA for land from the public land trust which was to be conveyed from the State Department of Land and Natural Resources (DLNR) to the Corporation for housing developments. Under Act 318, OHA is to be compensated 20 percent of the fair market value of ceded lands. OHA maintains that the fair market value of the Lahaina ceded lands was determined in May 1994. In November 1994, the ceded lands were conveyed from DLNR to the Corporation and a check for 20 percent of the fair market value of the property in the amount of \$5,573,604 was presented to OHA. OHA claims that a timely appraisal was not performed, 90 days before the date of conveyance, and that the conveyance of the Lahaina property was illegal. The payment was rejected by OHA and a liability remains outstanding as of June 30, 2006. In the event that OHA is not granted the injunctive and declaratory relief it seeks, OHA requests for a timely re-appraisal of the fair market value of the Lahaina ceded lands and payment in accordance with Act 318. The Corporation maintains that the fair market value was determined in August 1994 and therefore complies with the requirements of Act 318.

In November 1994, several individuals filed a claim similar to the OHA claim against DLNR and the Corporation seeking to enjoin the sale or transfer of certain ceded lands located in Lahaina, Maui, from the State to private individuals or entities. The claim alleges that the State does not have good marketable title of the ceded lands and any such sale or transfer would constitute an illegal conversion of lands. The plaintiffs seek an injunctive relief barring the Corporation from sale or transfer of the Lahaina ceded lands.

In response to the above claims, the State Department of Attorney General issued, in July 1995, its opinion as to whether the State has legal authority to sell or dispose of ceded lands. The Attorney General concluded that the State has been and remains empowered to sell trust lands subject to the terms of the trust.

The above claims have resulted in delays in the Leialii and La'opua Master Planned Community projects. The Corporation is presently evaluating alternatives and remains optimistic and committed to these projects. The Corporation will continue to work with innovation and creativity to resolve these concerns fairly, while still delivering quality houses in quality communities.

In 1994, an action was filed by OHA against the State and various unnamed parties claiming the State's alleged failure to properly account for and pay to OHA monies due to OHA, under Article XII of the Hawaii State Constitution and Chapter 10 of the Hawaii Revised Statutes, for occupation by the State on certain ceded lands, as more fully described below.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Litigation (continued)

In December, 2002, following a trial on the issues, the trial court confirmed the State's authority to sell ceded lands, denied the declaratory ruling that the sale of ceded lands did not directly or indirectly release or limit Hawaiian's claims to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and Corporation's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court. Those appeals are now pending. Trial to determine the sufficiency of the proceeds paid to OHA by the Corporation and the State from the sale of ceded lands at issue has not been scheduled.

The ultimate outcome of appeal cannot presently be determined. Accordingly, no provision for any liability nor its effect on the projects' net realizable value, if any, that may result upon adjudication, has been made in the accompanying statement of net assets.

It has been alleged but without certainty that payments received by the Corporation for all projects developed on ceded lands are subject to the above claim. However, the ultimate outcome of the litigation and its effect on the Corporation, if any, cannot presently be determined. Accordingly, no provision for any liability, if any, that may result from the resolution of this matter has been made in the statement of net assets.

In May 2004, public housing tenants filed a claim against the Corporation seeking declaratory and injunctive relief pursuant to U.S.C. §2201-02 & Rule 65 of the Federal Rules of Civil Procedure to adjust the Corporation's utility allowances to reflect changes in utility costs. The claim relates to the requirement per United States Housing Act, 42 U.S.C. §1437(a)(1), which requires that shelter costs for tenants residing in federally subsidized public housing projects do not exceed 30% of tenant income.

The plaintiffs allege the Corporation has failed to review or update the utility allowances for all projects since 1997. In establishing the utility allowances, the Corporation must annually review the utility allowances and make adjustments to reflect changes in the basis upon which the allowances are based. Additionally, where there is a change in the rates upon which the allowance is based of greater than 10%, the Corporation must make interim adjustments to its allowances. Also, the plaintiffs allege that since its last updated utility allowance, utility rates have increased substantially resulting in inadequate utility allowances and rent charges in excess of 30 percent of tenant income.

In August 2004, public housing disabled tenants filed a similar claim alleging the Corporation's failure to provide appropriate utility allowance as required by federal law and HUD regulations.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Litigation (continued)

The ultimate outcome of the litigation and its effect on the Corporation, if any, cannot be presently determined. Accordingly, no provision for any liability, if any, that may result from the resolution of this matter has been made in the statement of net assets.

Ceded Lands

OHA et al. v. State of Hawaii, Civil No. 94-0205-01 (First Circuit)

The lands transferred to the United States by the Republic of Hawaii at Hawaii's annexation to the United States in 1898 are commonly referred to as the ceded lands. Upon Hawaii's admission to the Union in 1959, title to ceded lands still held by the United States and to lands, which the United States acquired, by exchange for ceded lands after 1898 was conveyed by the United States to the State of Hawaii. Section 5 of the Admission Act expressly provided that those lands were to be held by the State as a public trust. Certain rental housing projects of the Corporation are situated on parcels of land, which are to be held by the State as a public trust under Section 5.

In 1979, the State legislature (the "Legislature") adopted HRS Chapter 10 ("Chapter 10,"), which, as amended in 1980, specified, among other things, that OHA expend 20 percent of all funds derived by the State from the Ceded Lands for the betterment of Native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987) ("Yamasaki"), the Hawaii Supreme Court concluded that Chapter 10 was insufficiently clear regarding the amount of monies OHA was entitled to receive from the public trust lands.

In 1990, in response to Yamasaki, the Legislature adopted Act 304, Session Laws of Hawaii 1990, which (i) defined "public land trust" and "revenue," (ii) reiterated that 20 percent of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State jointly to determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991. Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies paid 20 percent of "revenues" to OHA on a quarterly basis.

On January 14, 1994, OHA filed suit against the State alleging that the State failed to properly account for and fully pay the pro rata share of proceeds and income derived from the lands of public trust established by the Admission Act and the 1978 amendments to the State Constitution. OHA seeks an accounting of all proceeds and income, funds and revenues derived from the lands since 1978, and

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued)

OHA et al. v. State of Hawaii, Civil No. 94-0205-01 (First Circuit)(continued)

restitution or damages amounting to 20 percent of the proceeds and income derived from (a) the lands since November 7, 1978, (b) the lands since June 16, 1980, and (c) the lands under Act 304, Session Laws of Hawaii 1990, as well as interest thereon. The State has denied all of OHA's substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

In May 1996, OHA filed four motions for partial summary judgment as to the State's liability to pay OHA 20 percent of monies from four specific sources, including rental housing projects of the Corporation situated on public trust lands. The State opposed those four motions. The State also filed a motion to dismiss on sovereign immunity grounds.

On October 24, 1996, the Circuit Court of the First Circuit of the State of Hawaii (First Circuit Court) denied the State's motion to dismiss and granted OHA's four motions for partial summary judgment. The State has filed an interlocutory appeal to the Hawaii Supreme Court from both orders. All other proceedings have been stayed pending the Hawaii Supreme Court's disposition of the appeal.

OHA's complaint and motions do not specify the State's alleged failures, nor do they state the dollar amount of the claims. The First Circuit Court's October 24, 1996 order granting OHA's motions for partial summary judgment did not determine the amounts owing. The basis and methodology for calculating any such amount are being disputed. OHA has not provided complete information for its claims for the period from 1981 through 1991, and has provided no information as to its claims for the period from 1991 to the present. The expert witness retained by OHA in this case has estimated that the State's potential liability for the four sources specified in OHA's summary judgment motions for the years 1981 through 1991 (but not thereafter) to be not less than \$178,000,000, of which approximately \$9,200,000 is related to gross rental income derived by the Corporation.

On June 30, 1997, the Governor approved Act 329, Session Laws of Hawaii, 1997. The purpose of this Act was to achieve a comprehensive, just and lasting resolution of all controversies relating to the proper management and disposition of the lands subject to public trust, and of the proceeds and income, which the lands generate. The Act also fixes the amount of proceeds and income OHA will receive during the two-year period at \$15.1 million per year, and requires the completion, continued maintenance, and use of a comprehensive inventory of the public trust lands.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued)

OHA et al. v. State of Hawaii, Civil No. 94-0205-01 (First Circuit) (continued)

On September 12, 2001 the Hawaii Supreme Court concluded by holding that Act 304 was effectively repealed by its own terms, and that there was no judicial management standard, by which to determine whether OHA was entitled to the revenues it sought because the repeal of Act 304 revived the law which the court in Yamasaki had previously concluded was insufficiently clear to establish how much OHA was entitled to receive. The Supreme Court dismissed this case for lack of justiciability. Immediately thereafter, agencies ceased paying OHA any receipts from the ceded lands.

The Legislature took no action during the 2002 and 2003 legislative sessions to establish a new mechanism for establishing how much OHA was to receive. On January 23, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring receipts from the ceded lands to OHA. During the 2003 legislative session, the Legislature appropriated moneys from the various funds into which the ceded lands receipts had been deposited and directed the agencies to pay them to OHA. During the 2004 legislative session, the Legislature did not appropriate any moneys from the various funds. OHA continues to pursue its claims for a portion of the revenues from the ceded lands.

OHA et al. v. HHA et al., Civil No. 95-2682-07 (First Circuit)

On July 27, 1995, OHA filed suit against the Hawaii Housing Authority and the State Director of Finance to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of ceded lands, which were transferred to the Authority for rental housing projects. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal.

The State's potential liability, if any, therefore, may be determined either (1) by the ruling by the Hawaii Supreme Court on the State's interlocutory appeal and, if such ruling is adverse to the State, the conclusion of any subsequent trial and related appeals, or (2) by legislation enacted as a result of the process set out in Act 329. Given all of the above, and the uncertain timing of any final disposition of the case, the State is not able to predict either the ultimate outcome of the case, or the magnitude of its potential liability, if any, with any reasonable certainty. A legislative resolution or judicial decision adverse to the State could have a material adverse effect on the State's financial condition.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued)

OHA et al. v. HHA et al., Civil No. 95-2682-07 (First Circuit) (continued)

A legislative resolution or judicial decision adverse to the State could have a material adverse effect on the Corporation's financial condition if an adverse resolution or decision against the State includes liability for gross rental income derived by the Corporation from rental housing projects situated on lands in the public trust and the liability is imposed upon the Corporation. However, the ultimate outcome of the litigation and its effect on the Corporation, if any, cannot be determined. Accordingly, no estimate of loss has been made in the accompanying statement of net assets of the Corporation.

HUD Examination

In September 2002, HUD conducted a limited review of the Corporation's policies and procedures over procurement and contracting and the obligation and expenditure of Comprehensive Grant and Capital Fund Program funds. Based on the results of this limited review, HUD found several findings in these areas. The findings include the improper procurement of a construction contract totaling approximately \$771,000 to a construction company for repairs and maintenance of a housing project operated by the Corporation. During the fiscal year 2004, the Corporation made a payment to HUD of \$771,000 for the amounts paid under the construction contract.

As a result of the review, in September 2002, HUD issued a Corrective Action Order (CAO) for the Corporation. The CAO required that the Corporation, to perform certain corrective actions, including, but not limited to performing an assessment to identify improvements in its operations.

During 2005, as a result of the corrective action taken by the Corporation, HUD closed all findings identified in the CAO. Subsequently, allowing the Corporation to take the maximum points allowed under the Public Housing Assessment System (PHAS).

PHAS scores the Corporation on its Capital Fund Program by reviewing the unexpended funds, timeliness of fund obligation, contract administration, quality of physical work and budget controls. An on-site confirmatory review completed in December 2005 by the HUD Honolulu Office confirmed that the Corporation has met the highest level of performance under the Capital Fund Programs as required under PHAS.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Memorandum of Agreement with HUD

In accordance with the provisions of its Low Rent Public Housing Annual Contribution Contract with HUD, if the Corporation's performance evaluation results in a designation as a "troubled" public housing agency, as defined by the provisions of Public Housing Assessment System (PHAS) as codified at 24 CFR Part 902, the Corporation must enter into a binding contractual agreement designated as a Memorandum of Agreement (MOA) with HUD for the purpose of improving its performance.

On September 30, 2004, the Corporation and HUD entered into an MOA, thereby requiring the Corporation to comply with certain terms and conditions, including but not limited to meeting certain performance targets, implementing prescribed strategies, and meeting certain timelines for improvement, including written progress reports.

On November 22, 2005, HUD removed the "troubled" agency status noting that the Corporation made significant progress in achieving the targets and strategies under the MOA. The Corporation received a PHAS score of 73 points out of 100 points.

NOTE N – RETIREMENT PLAN

Employees' Retirement System

Plan Description

All eligible employees of the State and Counties are required by Chapter 88 of the Hawaii Revised Statutes to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for ERS. That report may be obtained from them.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE N – RETIREMENT PLAN (continued)

Employees' Retirement System (continued)

Plan Description (continued)

The ERS consists of a contributory plan and a noncontributory plan. Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984, who are covered by Social Security, are generally required to join the noncontributory plan. Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service excluding the vacation payment. All benefits vest after five and ten years of credited service for the contributory and noncontributory plans, respectively. All contributions, benefits and eligibility requirements are governed by Chapter 88.

Funding Policy

Most covered employees of the contributory plan are required to contribute 7.8 percent of their salary. Police officers, firefighters, investigators of the department of the prosecuting attorney and the attorney general, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2 percent of their salary. The actuarial cost or funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Under this method, the total employer contributions to the ERS is comprised of normal cost plus level annual payments required to amortize the unfunded actuarial accrued liability over the closed period ending June 30, 2029.

There was approximately \$1,869,000 of employer contributions (contributory and non-contributory) for the year ended June 30, 2006.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE O – POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the State provides certain health care and life insurance benefits to all employees hired prior to July 1, 1996 who retire from State employment on or after attaining age 62 with at least ten years of service or age 55 with at least thirty years of service under the noncontributory plan and age 55 with at least five years of service under the contributory plan. Retirees credited with at least ten years of service excluding sick leave credit qualify for free medical insurance premiums; however, retirees with less than ten years must assume a portion of the monthly premiums. All service-connected disability retirees who retired after June 30, 1984, with less than ten years of service also qualify for free medical insurance premiums. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 is also available. Retirees covered by the medical portion of Medicare are eligible to receive a reimbursement of a portion of the basic medical coverage premiums.

For employees hired after July 1, 1996 and retire with fewer than twenty-five years of service, the State shall pay to a fund a monthly contribution equal to one-half of the retired employee's monthly Medicare or non-Medicare premium for certain medical benefits for retired employees with ten or more years of service; and seventy-five percent of the retired employee's monthly Medicare or non-Medicare premium for retired employees with at least fifteen but fewer than twenty-five years of service.

Contributions are based upon negotiated collective bargaining agreements, and are funded by the Corporation as accrued.

The Corporation's general fund share of the post-retirement benefits expense for the year ended June 30, 2006 has not been separately computed and is not reflected in the Corporation's financial statements. The Corporation's enterprise funds' and special revenue funds' share of the post-retirement health care and life insurance benefits expense for the year ended June 30, 2006 approximated \$909,000 and is included in the financial statements.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE P – RELATED PARTY TRANSACTIONS

As discussed in Note M, management executed an agreement during December 2004 to transfer certain land and development rights to DHHL for \$33 million to be paid in 15 annual payments of \$2.2 million, with no provision for interest.

The Rental Assistance Fund and Section 8 Existing and Housing Voucher Programs provide rent subsidies to certain lessees of the Corporation's various projects. Total rent subsidies provided to lessees of the Corporation's various projects approximated \$1,112,000 and \$400,000 during the year ended June 30, 2006. These amounts have been recorded by the Corporation as rental income in the Hawaii Rental Housing System Revenue Bond Fund, Wilikina Apartments Project, and Kekumu at Waikoloa Project. In addition, the Corporation relocated its offices to the Pohulani building in September 1992. During the year ended June 30, 2006, the Hawaii Rental Housing System Revenue Bond Fund recorded rental income of approximately \$989,000, which was allocated as office rental expense to various funds of the Corporation. In addition, the State Department of Accounting and General Services (DAGS) incurred \$967,000 in rent to the Hawaii Rental Housing System Revenue Bond Fund for leased space in the Pohulani building. The term of the lease with DAGS is from September 1992 through August 2022. The minimum annual rental is determined by multiplying the previous year's minimum annual rent by one hundred three percent (103%).

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE Q – SEGMENT INFORMATION

In addition to the revenue bond funds reported as major proprietary funds, the Corporation has also issued revenue bonds to finance multifamily rental housing projects and provide interim and/or permanent financing for the construction or rehabilitation of affordable rental housing projects. Investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment.

Condensed Statement of Net Assets
(\$ in thousands)

	Multifamily Housing Revenue Bond Fund	University of Hawaii Faculty Housing Program Revenue Bond Fund
Assets:		
Cash	\$ —	\$ 402
Investment in financing lease	—	16,363
Receivables	7,976	28
Assets held by trustees	30,279	—
Other assets	290	281
Total assets	<u>\$ 38,545</u>	<u>\$ 17,074</u>
Liabilities:		
Bonds payable	\$ 37,422	\$ 14,670
Other liabilities	746	209
Total liabilities	38,168	14,879
Net Assets -		
Unrestricted	<u>377</u>	<u>2,195</u>
Total net assets	<u>377</u>	<u>2,195</u>
Total liabilities and net assets	<u>\$ 38,545</u>	<u>\$ 17,074</u>

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE Q – SEGMENT INFORMATION (continued)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
(\$ in thousands)

	Multifamily Housing Revenue Bond Fund	University of Hawaii Faculty Housing Program Revenue Bond Fund
Revenues:		
Interest	\$ 440	\$ 772
Other	125	—
Total revenues	565	772
Expenses:		
Interest	2,138	—
Other operating expenses	107	19
Total expenses	2,245	19
Operating (loss) income	(1,680)	753
Nonoperating Income (Expenses):		
Interest income	1,789	—
Net increase in fair value of investments	(1,779)	—
Interest expense	—	(835)
Other	(6)	18
Total nonoperating income (expenses)	4	(817)
Change in net assets	(1,676)	(64)
Net Assets at July 1, 2005	2,053	2,259
Net Assets at June 30, 2006	\$ 377	\$ 2,195

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE Q – SEGMENT INFORMATION (continued)

Condensed Statement of Cash Flows
(\$ in thousands)

	Multifamily Housing Revenue Bond Fund	University of Hawaii Faculty Housing Program Revenue Bond Fund
Net Cash (Used in) Provided by:		
Operating activities	\$ (7,869)	\$ 1,263
Non-capital and related financing activities	—	—
Capital and related financing activities	5,780	(1,235)
Investing activities	2,396	—
Net increase in cash and cash equivalents	307	28
Cash and Cash Equivalents at July 1, 2005	8	374
Cash and Cash Equivalents at June 30, 2006	\$ 315	\$ 402

NOTE R – INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2006 is as follows:

Due from	Housing Voucher Program	Section 8	Dwelling Unit Revolving Fund	Federal Low Rent Program	Nonmajor – Proprietary
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 77,412
Housing Voucher Program	-	-	2,508	1,437	2,289,393
Section 8	-	-	210	1,594	90,258
Dwelling Unit Revolving Fund	-	-	-	-	84,660
Single Family	-	-	-	-	130,859
Federal Low-Rent Program	-	-	44,407	369,835	1,604,762
Hawaii Rental Housing System	-	-	-	-	101,665
Internal Services	-	-	-	-	59,513
Nonmajor – Proprietary	1,705,000	832,566	415,000	3,486,453	5,104,648
Nonmajor – Government	-	-	-	-	10,644
TOTAL	\$1,705,000	\$832,566	\$ 462,125	\$3,859,319	\$9,553,814

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2006

NOTE R – INTERFUND RECEIVABLES AND PAYABLES (continued)

All other balances are due to interfund goods or services provided or reimbursable expenditures and payments between funds.

NOTE S – SUBSEQUENT EVENTS

On July 1, 2006, the Corporation redeemed \$11,325,000 of outstanding revenue bonds from the Single Family Mortgage Purchase Revenue Bond Fund, including \$5,795,000 of early redemptions.

In accordance with Act 196, SLH 2005, the Corporation will be split into two organizations to more effectively concentrate on the development of affordable housing. The legislature found that the State's role in maintaining affordable housing in Hawaii has evolved into two parts: (1) Administering the State's public housing programs; and (2) Financing and developing affordable housing. Effective July 1, 2006 the Corporation will be bifurcated into (1) the Hawaii public housing administration and (2) the Hawaii housing finance and development administration.

NOTE T – NEW PRONOUNCEMENTS FOR FINANCIAL REPORTING

The Governmental Accounting Standards Board (GASB) has issued the following Statements applicable to the Corporation:

- Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities/assets, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. This Statement is effective for financial statements period beginning after December 15, 2007. The Corporation has not yet analyzed the potential effect on the financial statements, if any, of adopting Statement No. 45.
- Statement No. 48 "Sales and Pledges of Receivables and Future Revenues of Intra-Entity Transfers of Assets and Future Revenues" establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables for specific future revenues. This Statement is effective for financial statements period beginning after December 15, 2006 and is not expected to have a material effect on the Corporation's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN
MANAGEMENT'S DISCUSSION AND ANALYSIS

Housing and Community Development Corporation of Hawaii

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2006

	General Fund		
	Original budget	Final budget	Budgetary Actual
Revenues -			
State allotted appropriations	\$ 8,388,167	\$ 13,779,723	\$ 13,672,761
Expenditures:			
Homeless service and assistance program	6,566,670	11,951,459	11,853,174
Rental housing and assistance program	1,821,497	1,828,264	1,819,587
REVENUES EQUALS			
EXPENDITURES	\$ -	\$ -	\$ -
	Housing Voucher Program		
	Original budget	Final budget	Budgetary Actual
Revenues -			
HUD contributions	\$ 17,674,550	\$ 17,431,614	\$ 16,542,335
Expenditures -			
Rental housing and assistance program	17,674,550	17,431,614	16,960,580
DEFICIENCY OF REVENUES			
UNDER EXPENDITURES	\$ -	\$ -	\$ (418,245)

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR GOVERNMENTAL FUNDS (continued)

Year ended June 30, 2006

	Section 8 Contract Administration		
	<u>Original budget</u>	<u>Final budget</u>	<u>Budgetary Actual</u>
Revenues			
HUD contributions	<u>\$ 35,950,963</u>	<u>\$ 28,686,927</u>	<u>\$ 18,957,619</u>
Expenditures			
Rental housing and assistance program	<u>35,950,963</u>	<u>28,686,927</u>	<u>19,226,900</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (269,281)</u>

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
BUDGET-TO-GAAP RECONCILIATION

Year ended June 30, 2006

	<u>General Fund</u>	<u>Housing Voucher Program</u>	<u>Section 8 Contract Administration</u>
Excess of revenues over expenditures and other sources and uses - actual on budgetary basis	\$ -	\$ (418,245)	\$ (269,281)
Reserve for encumbrance at year end*	5,967,465	-	-
Expenditures for liquidation of prior year's encumbrances	(621,743)	-	-
Reversion of prior year's allotments	(63,258)	-	-
Accrual adjustments and other	<u>535,097</u>	<u>(162,456)</u>	<u>(20,001)</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES AND OTHER USES - US GAAP BASIS	<u>\$ 5,817,561</u>	<u>\$ (580,701)</u>	<u>\$ (289,282)</u>

* Amount reflects the encumbrance balance included in continuing appropriation.

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

Housing and Community Development Corporation of Hawaii

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2006

ASSETS	Drug Elimination Program	Shelter Plus Care	HOPWA Program	Other	Total
Current Assets:					
Cash	\$ 243	\$ 25	\$ 7,869	\$ 58	\$ 8,195
Due from HUD	-	26,909	17,655	294,151	338,715
TOTAL ASSETS	\$ 243	\$ 26,934	\$ 25,524	\$ 294,209	\$ 346,910
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Accounts payable	\$ -	\$ 26,909	\$ 14,956	\$ 286,188	\$ 328,053
Due to other funds	-	-	2,699	7,945	10,644
Due to HUD	243	25	7,869	76	8,213
Total current liabilities	243	26,934	25,524	294,209	346,910
Fund Balance - Unreserved	-	-	-	-	-
Total fund balances	-	-	-	-	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 243	\$ 26,934	\$ 25,524	\$ 294,209	\$ 346,910

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2006

	Drug Elimination Program	Shelter Plus Care	HOPWA Program	Other	Total
Revenue:					
Intergovernmental - HUD annual contributions and others	\$ -	\$ 393,422	\$ 198,761	\$ 1,161,613	\$ 1,753,796
State allotted appropriations, net of lapsed funds	-	-	-	350,000	350,000
Total revenues	-	393,422	198,761	1,511,613	2,103,796
Expenditures:					
Administration	-	393,422	198,761	1,576,230	2,168,413
Professional services	-	-	-	7,086	7,086
Total expenditures	-	393,422	198,761	1,583,316	2,175,499
NET CHANGE IN FUND BALANCES	-	-	-	(71,703)	(71,703)
Fund Balance at July 1, 2005	-	-	-	71,703	71,703
Fund Balance at June 30, 2006	\$ -	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS - NONMAJOR ENTERPRISE FUNDS

June 30, 2006

ASSETS	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
Current Assets:				
Cash	\$ 401,779	\$ 4,152,000	\$ 71,626,320	\$ 76,180,099
Receivables:				
Mortgage loans	26,227	-	387,042	413,269
Accrued interest	125,006	32,966	2,486,531	2,644,503
Tenant receivables, less allowance for doubtful accounts	-	166,153	-	166,153
Other	42,533	564,689	166,709	773,931
	<u>193,766</u>	<u>763,808</u>	<u>3,040,282</u>	<u>3,997,856</u>
Due from HUD	-	192,570	-	192,570
Due from other funds	289,567	804,516	8,134,731	9,228,814
Inventories- materials and supplies, less allowance	-	62,431	101,007	163,438
Net investment in financing lease	499,184	-	-	499,184
Prepaid expenses and other assets	-	52,373	137,874	190,247
Deposits held in trust	-	92,688	6,898	99,586
Deferred bond issuance costs	18,106	-	-	18,106
	<u>1,402,402</u>	<u>6,120,386</u>	<u>83,047,112</u>	<u>90,569,900</u>
Total current assets				
Assets Held by Trustees Under Revenue Bond Programs:				
Cash and cash equivalent	315,792	-	-	315,792
Investments	29,963,575	-	-	29,963,575
	<u>30,279,367</u>	<u>-</u>	<u>-</u>	<u>30,279,367</u>
Investments				
Mortgage Loans, net of current portion	-	-	6,380,627	6,380,627
Notes and Loans, net of current portion	7,810,423	-	55,254,167	63,064,590
Other Receivables	-	426,100	-	426,100
Advances to Other Funds	-	517,712	-	517,712
Net Investment in Financing Lease, net of current portion	-	325,000	-	325,000
Deferred Bond Issuance Costs, net of current portion	15,863,896	-	-	15,863,896
Restricted Deposits and Funded Reserves	262,495	-	-	262,495
Capital Assets, less accumulated depreciation	-	8,506,200	-	8,506,200
	<u>-</u>	<u>71,096,436</u>	<u>-</u>	<u>71,096,436</u>
TOTAL ASSETS	\$ 55,618,583	\$ 86,991,834	\$ 144,681,906	\$ 287,292,323

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS - NONMAJOR ENTERPRISE FUNDS (continued)

June 30, 2006

LIABILITIES AND FUND NET ASSETS

	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
Current Liabilities:				
Accounts payable	\$ -	\$ 114,946	\$ 740,216	\$ 855,162
Accrued expenses:				
Interest	938,474	-	-	938,474
Other	8,075	649,737	276,504	934,316
Due to other funds	8,268	4,227,793	7,307,606	11,543,667
Due to HUD	-	9,712	-	9,712
Due to State of Hawaii	-	-	25,000	25,000
Security deposits	-	303,500	474,441	777,941
Mortgage payable	-	131,639	-	131,639
Deferred income	-	4,852	-	4,852
Revenue bonds payable, less deferred refunding cost	825,779	-	-	825,779
Total current liabilities	1,780,596	5,442,179	8,823,767	16,046,542
Note payable, net of current portion	-	171,327	-	171,327
Mortgage payable, net of current portion	-	6,088,180	-	6,088,180
Revenue Bonds Payable, net of current portion	51,265,871	-	-	51,265,871
Net Assets:				
Invested in capital assets, net of related debt	-	64,705,290	-	64,705,290
Restricted by legislation and contractual agreements	30,279,367	8,506,200	-	38,785,567
Unrestricted	(27,707,251)	2,078,658	135,858,139	110,229,546
Total net assets	2,572,116	75,290,148	135,858,139	213,720,403
TOTAL LIABILITIES AND NET ASSETS	\$ 55,618,583	\$ 86,991,834	\$ 144,681,906	\$ 287,292,323

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES AND EXPENSES - NON-MAJOR ENTERPRISE FUNDS

June 30, 2006

	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
Operating Revenues:				
Interest on mortgages, notes, loans, mortgage-backed securities, and net investment in financing lease (note I)	\$ 1,211,921	\$ -	\$ 1,113,651	\$ 2,325,572
Rental	-	4,522,123	-	4,522,123
Conveyance tax	-	-	16,993,834	16,993,834
Other	124,978	728,867	4,478,946	5,332,791
Total operating revenues	<u>1,336,899</u>	<u>5,250,990</u>	<u>22,586,431</u>	<u>29,174,320</u>
Operating Expenses:				
Project	-	-	2,622,869	2,622,869
Personal services	23,146	1,595,275	1,990,458	3,608,879
Depreciation	-	2,453,572	-	2,453,572
Housing assistance payments	-	-	1,677,471	1,677,471
Administration	9,823	660,832	359,758	1,030,413
Provision for losses	-	172,876	-	172,876
Professional services	34,232	111,289	137,691	283,212
Security	8	1,857	116	1,981
Insurance	62	60,326	6,804	67,192
Repairs and maintenance	81	1,249,627	52,178	1,301,886
Utilities	-	1,391,645	-	1,391,645
Capital expenditures	84	15,560	6,390	22,034
Interest expense	2,137,558	-	-	2,137,558
Other	58,353	209,229	151,248	418,830
Total operating expenses	<u>2,263,347</u>	<u>7,922,088</u>	<u>7,804,983</u>	<u>17,190,418</u>
Operating (loss) income	<u>(926,448)</u>	<u>(2,671,098)</u>	<u>15,581,448</u>	<u>11,983,902</u>
Nonoperating Revenues (Expenses):				
Interest income - cash and investments	1,789,378	448,743	2,569,939	4,808,060
Net decrease in fair value of investments	(1,778,831)	-	(750,227)	(2,529,058)
Interest expense	(835,240)	(164,683)	(11,390)	(1,011,313)
Trustee fees	(7,190)	-	-	(7,190)
Amortization of deferred bond issuance costs	(18,515)	-	-	(18,515)
Other revenues	36,952	-	-	36,952
Total nonoperating (expenses) revenues	<u>(813,446)</u>	<u>284,060</u>	<u>1,808,322</u>	<u>1,278,936</u>
Net Operating Transfers	-	255,047	(5,034)	250,013
CHANGE IN NET ASSETS	<u>\$ (1,739,894)</u>	<u>\$ (2,131,991)</u>	<u>\$ 17,384,736</u>	<u>\$ 13,512,851</u>

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CHANGES IN FUND NET ASSETS - NONMAJOR ENTERPRISE FUNDS

June 30, 2006

	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
Net Assets at July 1, 2005	\$ 4,312,010	\$ 77,422,139	\$ 118,473,403	\$ 200,207,552
Change in Net Assets	(1,739,894)	(2,131,991)	17,384,736	13,512,851
Net Assets at June 30, 2006	<u>\$ 2,572,116</u>	<u>\$ 75,290,148</u>	<u>\$ 135,858,139</u>	<u>\$ 213,720,403</u>

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS

June 30, 2006

	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
Cash Flows from Operating Activities:				
Cash received from renters	\$ -	\$ 4,197,754	\$ 406,944	\$ 4,604,698
Cash received from borrowers				
Principal repayments	34,558	-	3,687,690	3,722,248
Interest income	440,053	-	885,550	1,325,603
Cash received from net investment in financing lease	1,249,521	-	-	1,249,521
Cash received for conveyance taxes	-	-	16,993,834	16,993,834
Cash to borrower	(6,165,000)	-	-	(6,165,000)
Cash payments for loan originations	-	-	(5,444,471)	(5,444,471)
Cash payments for interest	(2,112,739)	-	-	(2,112,739)
Cash payments to employees	(23,146)	(1,595,275)	(1,964,667)	(3,583,088)
Cash payments to suppliers	(109,878)	(3,466,149)	(4,320,321)	(7,896,348)
Cash (payments to) receipts from other funds	(63,195)	959,862	(1,454,356)	(557,689)
Other cash receipts	144,450	24,612	3,959,426	4,128,488
Net cash (used in) provided by operating activities	(6,605,376)	120,804	12,749,629	6,265,057
Cash Flows from Noncapital Financing Activities:				
Cash received from borrower	-	-	3,250,002	3,250,002
Interest paid to the Department of Budget and Finance	-	(1,002)	(11,390)	(12,392)
Operating transfers in	-	188,536	-	188,536
Operating transfers out	-	-	(5,034)	(5,034)
Net cash provided by noncapital financing activities	-	187,534	3,233,578	3,421,112
Subtotal earned forward	\$ (6,605,376)	\$ 308,338	\$ 15,983,207	\$ 9,686,169

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS (continued)

June 30, 2006

	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
Subtotal brought forward	\$ (6,605,376)	\$ 308,338	\$ 15,983,207	\$ 9,686,169
Cash Flows from Capital and Related Financing Activities:				
Principal paid on revenue bond maturities and redemptions	(779,558)	-	-	(779,558)
Other financing source - new bond issuance	6,165,000	-	-	6,165,000
Interest paid on revenue bonds	(840,029)	-	-	(840,029)
Payments for acquisition of property and equipment	-	(476,776)	-	(476,776)
Principal payments on mortgage loans	-	(122,864)	-	(122,864)
Payments of interest	-	(163,681)	-	(163,681)
Other	-	107,561	-	107,561
Net cash provided by (used in) capital and related financing activities	4,545,413	(655,760)	-	3,889,653
Cash Flows from Investing Activities:				
Purchases of investments	(1,404,012)	-	-	(1,404,012)
Proceeds from maturities of investments	2,039,679	-	1,723	2,041,402
Receipts of interest	1,760,442	401,580	2,524,174	4,686,196
Net increase in restricted deposits and funded reserves	-	(1,049,764)	-	(1,049,764)
Net cash provided by (used in) investing activities	2,396,109	(648,184)	2,525,897	4,273,822
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	336,146	(995,606)	18,509,104	17,849,644
Cash and Cash Equivalents at July 1, 2005	381,425	5,147,606	53,117,216	58,646,247
Cash and Cash Equivalents at June 30, 2006	\$ 717,571	\$ 4,152,000	\$ 71,626,320	\$ 76,495,891
Reconciliation of Cash to Cash and Cash Equivalents:				
Cash	\$ 401,779	\$ 4,152,000	\$ 71,626,320	\$ 76,180,099
Money market funds	315,792	-	-	315,792
Cash and Cash Equivalents at June 30, 2006	\$ 717,571	\$ 4,152,000	\$ 71,626,320	\$ 76,495,891

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS (continued)

June 30, 2006

	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
Cash Flows from Operating Activities:				
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:				
Operating (loss) income	\$ (926,448)	\$ (2,671,098)	\$ 15,581,448	\$ 11,983,902
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:				
Depreciation	-	2,453,572	-	2,453,572
Recovery of losses	-	172,876	-	172,876
Changes in assets and liabilities:				
Mortgage loan receivables	(6,130,442)	-	(1,678,966)	(7,809,408)
Accrued interest receivable on mortgages, notes and loans	-	-	(311,007)	(311,007)
Tenant receivables	-	(165,256)	-	(165,256)
Other receivables	465,708	(533,380)	(29,670)	(97,342)
Due from other funds	(69,040)	(14,109)	(891,295)	(974,444)
Due from State of Hawaii	-	-	2,257	2,257
Due from HUD	-	(189,085)	-	(189,085)
Inventories	-	13,682	(6,742)	6,940
Prepaid expenses and other assets	-	12,419	262,612	275,031
Net investment in lease financing	31,417	-	-	31,417
Deposits held in trust	-	7,315	-	7,315
Accounts payable	-	18,012	448,521	466,533
Accrued interest payable	24,819	-	-	24,819
Other accrued expenses	(7,235)	18,833	12,231	23,829
Due to other funds	5,845	973,971	(561,945)	417,871
Due to HUD	-	6,010	-	6,010
Security deposits	-	14,823	(77,815)	(62,992)
Deferred income	-	2,219	-	2,219
Net cash (used in) provided by operating activities	<u>\$ (6,605,376)</u>	<u>\$ 120,804</u>	<u>\$ 12,749,629</u>	<u>\$ 6,265,057</u>

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS - NON-MAJOR REVENUE BOND FUNDS

Year ended June 30, 2006

ASSETS	Multifamily Housing Revenue Bond Fund	University of Hawaii Faculty Housing Program Revenue Bond Fund	Total
Current Assets:			
Cash	\$ -	\$ 401,779	\$ 401,779
Receivables:			
Mortgage loans	26,227	-	26,227
Accrued interest	125,006	-	125,006
Other	14,428	28,105	42,533
Due from other funds	289,567	-	289,567
Net investment in financing lease	-	499,184	499,184
Deferred bond issuance costs	-	18,106	18,106
Total current assets	455,228	947,174	1,402,402
Assets Held by Trustees Under Revenue Bond Programs:			
Cash and cash equivalents	315,792	-	315,792
Investments	29,963,575	-	29,963,575
Mortgage Loans, net of current portion	7,810,423	-	7,810,423
Net Investment in Financing Lease, net of current portion	-	15,863,896	15,863,896
Deferred Bond Issuance Costs, net of current portion	-	262,495	262,495
TOTAL ASSETS	\$ 38,545,018	\$ 17,073,565	\$ 55,618,583
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accrued interest	\$ 730,861	\$ 207,613	\$ 938,474
Other accrued expenses	8,075	-	8,075
Due to other funds	6,836	1,432	8,268
Revenue bonds payable	410,779	415,000	825,779
Total current liabilities	1,156,551	624,045	1,780,596
Revenue Bonds Payable, net of current portion	37,010,871	14,255,000	51,265,871
Net Assets -			
Restricted by legislation and contractual agreements	30,279,367	-	30,279,367
Unrestricted	(29,901,771)	2,194,520	(27,707,251)
Total net assets	377,596	2,194,520	2,572,116
TOTAL LIABILITIES AND NET ASSETS	\$ 38,545,018	\$ 17,073,565	\$ 55,618,583

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES AND EXPENSES - NONMAJOR REVENUE BOND FUNDS

Year ended June 30, 2006

	Multifamily Housing Revenue Bond Fund	University of Hawaii Faculty Housing Program Revenue Bond Fund	Total
Operating Revenues:			
Interest on mortgages, notes, loans, mortgage-backed securities and net investment in financing lease (note f)	\$ 440,053	\$ 771,868	\$ 1,211,921
Other	124,978	-	124,978
Total operating revenues	565,031	771,868	1,336,899
Operating Expenses:			
Personal services	23,146	-	23,146
Administration	9,823	-	9,823
Professional services	15,160	19,072	34,232
Security	8	-	8
Insurance	62	-	62
Repairs and maintenance	81	-	81
Capital expenditures	84	-	84
Interest expense	2,137,558	-	2,137,558
Other	58,353	-	58,353
Total operating expenses	2,244,275	19,072	2,263,347
Operating (loss) income	(1,679,244)	752,796	(926,448)
Nonoperating Revenues (Expenses):			
Interest income - cash and investments	1,789,378	-	1,789,378
Net decrease in fair value of investments	(1,778,831)	-	(1,778,831)
Interest expense	-	(835,240)	(835,240)
Trustee fees	(7,190)	-	(7,190)
Amortization of deferred bond issuance costs	-	(18,515)	(18,515)
Other revenues	-	36,952	36,952
Total nonoperating revenues (expenses)	3,357	(816,803)	(813,446)
CHANGE IN NET ASSETS	\$ (1,675,887)	\$ (64,007)	\$ (1,739,894)

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CHANGES IN FUND NET ASSETS -
NONMAJOR REVENUE BOND FUNDS

Year ended June 30, 2006

	Multifamily Housing Revenue Bond Fund	University of Hawaii Faculty Housing Program Revenue Bond Fund	Total
Net Assets at July 1, 2005	\$ 2,053,483	\$ 2,258,527	\$ 4,312,010
Change in Net Assets	<u>(1,675,887)</u>	<u>(64,007)</u>	<u>(1,739,894)</u>
Net Assets at June 30, 2006	<u>\$ 377,596</u>	<u>\$ 2,194,520</u>	<u>\$ 2,572,116</u>

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR REVENUE BOND FUNDS

Year ended June 30, 2006

	Multifamily Housing Revenue Bond Fund	University of Hawaii Faculty Housing Program Revenue Bond Fund	Total
Cash Flows from Operating Activities:			
Cash received from borrowers:			
Principal repayments	\$ 34,558	\$ -	\$ 34,558
Interest income	440,053	-	440,053
Cash received from net investment in financing lease	-	1,249,521	1,249,521
Cash to borrower	(6,165,000)	-	(6,165,000)
Cash payments for interest	(2,112,739)	-	(2,112,739)
Cash payments to employees	(23,146)	-	(23,146)
Cash payments to suppliers	(90,806)	(19,072)	(109,878)
Cash (payments to) receipts from other funds	(64,627)	1,432	(63,195)
Other cash receipts	113,033	31,417	144,450
Net cash (used in) provided by operating activities	(7,868,674)	1,263,298	(6,605,376)
Cash Flows from Capital and Related Financing Activities:			
Principal paid on revenue bond maturities and redemptions	(384,558)	(395,000)	(779,558)
Other financing source - new bond issuance	6,165,000	-	6,165,000
Interest paid on revenue bonds	-	(840,029)	(840,029)
Net cash provided by (used in) capital and related financial activities	5,780,442	(1,235,029)	4,545,413
Cash Flows from Investing Activities:			
Purchases of investments	(1,404,012)	-	(1,404,012)
Proceeds from maturities of investments	2,039,679	-	2,039,679
Receipts of interest	1,760,442	-	1,760,442
Net cash provided by investing activities	2,396,109	-	2,396,109
NET INCREASE IN CASH AND CASHEQUIVALENTS	307,877	28,269	336,146
Cash and Cash Equivalents at July 1, 2005	7,915	373,510	381,425
Cash and Cash Equivalents at June 30, 2006	\$ 315,792	\$ 401,779	\$ 717,571
Reconciliation of Cash to Cash and Cash Equivalents:			
Cash	\$ -	\$ 401,779	\$ 401,779
Money market funds	315,792	-	315,792
Cash and Cash Equivalents at June 30, 2006	\$ 315,792	\$ 401,779	\$ 717,571

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASHFLOWS - NONMAJOR REVENUE BOND FUNDS (continued)

Year ended June 30, 2006

	Multifamily Housing Revenue Bond Fund	University of Hawaii Faculty Housing Program Revenue Bond Fund	Total
Cash Flows from Operating Activities:			
Reconciliation of operating (loss) income to net cash (used in)			
provided by operating activities:			
Operating (loss) income	\$ (1,679,244)	\$ 752,796	\$ (926,448)
Adjustments to reconcile operating (loss) income to net			
cash (used in) provided by operating activities:			
Changes in assets and liabilities:			
Mortgage loans receivables	(6,130,442)	-	(6,130,442)
Due from other funds	(69,040)	-	(69,040)
Other receivables	(11,945)	477,653	465,708
Net investment in lease financing	-	31,417	31,417
Accrued interest payable	24,819	-	24,819
Other accrued expenses	(7,235)	-	(7,235)
Due to other funds	4,413	1,432	5,845
	<u>\$ (7,868,674)</u>	<u>\$ 1,263,298</u>	<u>\$ (6,605,376)</u>
Net cash (used in) provided by operating activities			

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS - NONMAJOR OTHER ENTERPRISE FUNDS

June 30, 2006

ASSETS	Housing Revolving Fund	Housing for Elders Revolving Fund	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wilikina Apartments Project	Kekulani Gardens Project	Kekumu at Waikoloa Project	Total
Current Assets:								
Cash	\$ 768,690	\$ 2,437,745	\$ 906,293	\$ 23,362	\$ 10,717	\$ 5,068	\$ 125	\$ 4,152,000
Receivables:								
Accrued interest	7,249	19,416	6,301	-	-	-	-	32,966
Tenant receivables, less allowance for doubtful accounts	60,556	25,984	38,219	-	15,868	21,464	4,062	166,153
Other	9,137	1,810	1,500	7,573	524,010	20,659	-	564,689
Due from HUD	-	-	-	191,381	1,189	-	-	192,570
Due from other funds	117,583	686,933	-	-	-	-	-	804,516
Inventories - materials and supplies, less allowance	20,745	41,686	-	-	-	-	-	62,431
Prepaid expenses and other assets	-	1,707	1,150	49,516	-	-	-	52,373
Deposits held in trust	-	-	-	10,786	21,079	33,505	27,318	92,688
Total current assets	983,960	3,215,281	953,463	282,618	572,863	80,696	31,505	6,120,386
Notes and Loans	426,100	-	-	-	-	-	-	426,100
Other Receivables	517,712	-	-	-	-	-	-	517,712
Advances to Other Funds	175,000	130,000	20,000	-	-	-	-	325,000
Restricted Deposits and Funded Reserves	-	-	-	2,443,476	5,436,528	625,079	1,117	8,506,200
Capital Assets, less accumulated depreciation	12,808,223	44,002,970	1,292,359	2,476,786	5,561,036	4,955,062	-	71,096,436
TOTAL ASSETS	\$ 14,910,995	\$ 47,348,251	\$ 2,265,822	\$ 5,202,880	\$ 11,570,427	\$ 5,660,837	\$ 32,622	\$ 86,991,834

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS - NONMAJOR OTHER ENTERPRISE FUNDS (continued)

June 30, 2006

	Housing Revolving Fund	Housing for Elders Revolving Fund	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wilikina Apartments Project	Kekuilani Gardens Project	Kekumu at Waikoloa Project	Total
LIABILITIES AND NET ASSETS								
Current Liabilities:								
Accounts payable	\$ 50	\$ -	\$ 1,805	\$ 3,766	\$ 26,305	\$ 23,397	\$ 59,623	\$ 114,946
Accrued expenses - other	162,829	176,284	8,273	7,891	10,684	-	283,776	649,737
Due to other funds	3,373,803	784,678	4,312	65,000	-	-	-	4,227,793
Due to HUD	-	-	-	-	9,712	-	-	9,712
Security deposits	32,977	155,473	22,375	10,773	21,079	33,505	27,318	303,500
Mortgage payable	-	-	-	98,200	-	33,439	-	131,639
Deferred income	-	-	-	-	4,852	-	-	4,852
Total current liabilities	3,569,659	1,116,435	36,765	185,630	72,632	90,341	370,717	5,443,179
Note Payable, net of current portion	-	-	-	171,327	-	-	-	171,327
Mortgage Payable, net of current portion	-	-	-	455,603	-	5,632,577	-	6,088,180
Net Assets:								
Invested in capital assets, net of related debt	12,808,223	44,002,970	1,292,359	1,751,656	5,561,036	(710,954)	-	64,705,290
Restricted by legislation and contractual agreements	-	-	-	2,443,476	5,436,528	625,079	1,117	8,506,200
Unrestricted	(1,466,887)	2,228,846	936,698	195,188	500,231	23,794	(339,212)	2,078,658
Total net assets	11,341,336	46,231,816	2,229,057	4,390,320	11,497,795	(62,081)	(338,095)	75,290,148
TOTAL LIABILITIES AND NET ASSETS	\$ 14,910,995	\$ 47,348,251	\$ 2,265,822	\$ 5,202,880	\$ 11,570,427	\$ 5,660,837	\$ 32,622	\$ 86,991,834

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES AND EXPENSES – NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2006

	Housing Revolving Fund	Housing for Elders Revolving Fund	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wilikina Apartments Project	Kekulani Garden Project	Kekumu at Waikoloa Project	Total
Operating Revenues:								
Rental	\$ 853,238	\$ 1,701,486	\$ 209,414	\$ 369,320	\$ 674,399	\$ 376,425	\$ 337,841	\$ 4,522,123
Other	38,724	71,491	6,000	181,669	200,186	219,421	11,376	728,867
Total operating revenues	891,962	1,772,977	215,414	550,989	874,585	595,846	349,217	5,250,990
Operating Expenses:								
Personal services	838,195	337,072	44,691	-	214,797	106,312	54,208	1,595,275
Depreciation	388,683	1,386,307	53,644	139,744	323,260	161,934	-	2,453,572
Administration	74,639	138,872	30,020	69,997	108,231	46,469	192,604	660,832
Provision for losses	94,273	(1,397)	-	-	80,000	-	-	172,876
Professional services	48,666	18,946	12,648	-	-	22,500	8,529	111,289
Security	520	376	16	-	-	745	-	1,857
Insurance	9,180	16,488	740	11,341	4,926	-	17,651	60,326
Repairs and maintenance	201,405	668,783	68,561	93,747	171,856	15,493	29,782	1,249,627
Utilities	432,089	694,527	7,498	41,352	94,266	48,698	73,215	1,391,645
Capital expenditures	-	15,560	-	-	-	-	-	15,560
Other	115	(172)	-	175,311	-	33,975	-	209,229
Total operating expenses	2,087,765	3,275,562	217,818	531,492	997,336	436,126	375,989	7,922,088
Operating (loss) income	(1,195,803)	(1,502,585)	(2,404)	19,497	(122,751)	159,720	(26,772)	(2,671,098)
Nonoperating Revenues (Expenses):								
Interest income - cash and investments	94,463	86,473	25,765	11,930	212,789	17,323	-	448,743
Interest expense	(721)	-	(281)	(50,969)	-	(112,712)	-	(164,683)
Total nonoperating revenues (expenses)	93,742	86,473	25,484	(39,039)	212,789	(95,389)	-	284,060
(Loss) income before operating transfers	(1,102,061)	(1,416,112)	23,080	(19,542)	90,038	64,331	(26,772)	(2,387,038)
Operating Transfers In	188,536	-	-	66,511	-	-	-	255,047
CHANGE IN NET ASSETS	\$ (913,525)	\$ (1,416,112)	\$ 23,080	\$ 46,969	\$ 90,038	\$ 64,331	\$ (26,772)	\$ (2,131,991)

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CHANGES IN FUND NET ASSETS - NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2006

	Housing Revolving Fund	Housing for Elders Revolving Fund	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wilkina Apartments Project	Kekulani Gardens Project	Kekumu at Waikoloa Project	Total
Net Assets at July 1, 2005	\$ 12,254,861	\$ 47,647,928	\$ 2,205,977	\$ 4,343,351	\$ 11,407,757	\$ (126,412)	\$ (311,323)	\$ 77,422,139
Change in Net Assets	(913,525)	(1,416,112)	23,080	46,969	90,038	64,331	(26,772)	(2,131,991)
Net Assets at June 30, 2006	\$ 11,341,336	\$ 46,231,816	\$ 2,229,057	\$ 4,390,320	\$ 11,497,795	\$ (62,081)	\$ (338,095)	\$ 75,290,148

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2006

	Housing Revolving Fund	Housing for Elders Revolving Fund	Teacher Housing Revolving Fund	Banyan Street Manor Project	Willina Apartments Project	Kekulani Gardens Project	Kekumu at Waikoloa Project	Total
Cash Flows from Operating Activities:								
Cash received from renters	\$ 755,824	\$ 1,696,958	\$ 225,623	\$ 184,848	\$ 611,278	\$ 386,002	\$ 337,841	\$ 4,197,754
Cash payments to employees	(838,195)	(337,072)	(44,691)	-	(214,797)	(106,312)	(54,208)	(1,595,275)
Cash payments to suppliers	(759,996)	(1,532,054)	(125,476)	(228,426)	(368,003)	(157,340)	(294,854)	(3,466,149)
Cash receipts from other funds	865,267	26,736	2,859	65,000	-	-	-	959,862
Other cash receipts (payments)	39,192	72,638	14,489	868	(314,288)	200,337	11,376	24,612
Net cash provided by (used in) operating activities	62,072	(72,794)	72,204	22,290	(285,810)	322,687	155	120,804
Cash Flows from Noncapital Financing Activities:								
Interest paid to Department of Budget and Finance	(721)	-	(281)	-	-	-	-	(1,002)
Operating transfers in	188,536	-	-	-	-	-	-	188,536
Net cash provided by (used in) noncapital financing activities	187,815	-	(281)	-	-	-	-	187,534
Cash Flows from Capital and Related Financing Activities:								
Payments for acquisition of property and equipment	-	-	-	(1,498)	(281,977)	(193,301)	-	(476,776)
Principal payments on mortgage loans	-	-	-	(91,161)	-	(31,703)	-	(122,864)
Interest payments	-	-	-	(50,969)	-	(112,712)	-	(163,681)
Other	-	-	-	107,561	-	-	-	107,561
Net cash used in capital and related financing activities	-	-	-	(36,067)	(281,977)	(337,716)	-	(655,760)
Cash Flows from Investing Activities:								
Receipts of interest	48,865	81,844	28,829	11,930	212,789	17,323	-	401,580
Net decrease (increase) in restricted deposits and funded reserves	-	-	-	16,574	(1,069,082)	2,774	(30)	(1,049,764)
Net cash provided by (used in) investing activities	48,865	81,844	28,829	28,504	(856,293)	20,097	(30)	(648,184)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	298,752	9,050	100,752	14,727	(1,424,080)	5,068	125	(995,606)
Cash and Cash Equivalents at July 1, 2005	469,938	2,428,695	805,541	8,635	1,434,797	-	-	5,147,606
Cash and Cash Equivalents at June 30, 2006	\$ 768,690	\$ 2,437,745	\$ 906,293	\$ 23,362	\$ 10,717	\$ 5,068	\$ 125	\$ 4,152,000

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR OTHER ENTERPRISE FUNDS (continued)

Year ended June 30, 2006

	Housing Revolving Fund	Housing for Elders Revolving Fund	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wililina Apartments Project	Kekulani Gardens Project	Kekumu at Waikoloa Project	Total
Cash Flows from Operating Activities:								
Reconciliation of operating (loss) income to net cash provided by (used in) operating activities:								
Operating (loss) income	\$ (1,195,803)	\$ (1,502,585)	\$ (2,404)	\$ 19,497	\$ (122,751)	\$ 159,720	\$ (26,772)	\$ (2,671,098)
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:								
Depreciation	388,683	1,386,307	53,644	139,744	323,260	161,934	-	2,453,572
Provision for (recovery of) losses	94,273	(1,397)	-	-	80,000	-	-	172,876
Changes in assets and liabilities:								
Tenant receivables	(98,769)	(17,353)	14,134	406	(73,251)	9,577	-	(165,256)
Other receivables	583	975	8,489	(7,573)	(516,770)	(19,084)	-	(533,380)
Due from other funds	(14,109)	-	-	-	-	-	-	(14,109)
Due from HUD	-	-	-	(191,381)	2,296	-	-	(189,085)
Inventories	6,989	6,693	-	-	-	-	-	13,682
Prepaid expenses and other assets	-	(1,707)	250	13,876	-	-	-	12,419
Deposits held in trust	-	-	-	6,946	117	2,591	(2,339)	7,315
Accounts payable	-	-	1,805	(29,772)	8,512	10,540	26,927	18,012
Other accrued expenses	(486)	16,712	(8,048)	7,891	2,764	-	-	18,833
Due to other funds	879,376	26,736	2,859	65,000	-	-	-	973,971
Due to HUD	-	-	-	(1,901)	7,911	-	-	6,010
Security deposits	1,335	12,825	1,475	(443)	(117)	(2,591)	2,339	14,823
Deferred income	-	-	-	-	2,219	-	-	2,219
Net cash provided by (used in) operating activities	\$ 62,072	\$ (72,794)	\$ 72,204	\$ 22,290	\$ (285,810)	\$ 322,687	\$ 155	\$ 120,804

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS - NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS

June 30, 2006

ASSETS	Fee Simple Residential Revolving Fund	Rental Assistance Fund	Housing Finance Revolving Fund	Disbursing Fund	Rental Housing Trust Fund	KPT Resource Center	Federal Grant Program Fund	Grant-In-Aid Fund	Hannakua	Waialua	Total
Current Assets:											
Cash	\$ 258	\$ 27,211,508	\$ 1,972,512	\$ 22,818	\$ 41,810,547	\$ 371,497	\$ 76,196	\$ 135,275	\$ -	\$ 25,709	\$ 71,626,320
Receivables:											
Mortgage loans	-	-	36,620	-	345,320	-	-	-	1,551	3,551	387,042
Accrued interest	232	705,880	46,523	-	1,730,731	-	-	-	1,851	1,314	2,486,531
Other	-	-	-	-	-	75,228	91,481	-	-	-	166,709
Due from other funds	101,712	-	1,339,851	6,693,168	-	-	-	-	-	-	8,134,731
Inventories - materials and supplies	-	-	-	101,007	-	-	-	-	-	-	101,007
Prepaid expenses and other assets	-	137,769	-	105	-	-	-	-	-	-	137,874
Deposits held in trust	6,898	-	-	-	-	-	-	-	-	-	6,898
Total current assets	109,100	28,055,157	3,395,506	6,817,098	43,886,598	446,725	167,677	135,275	3,402	30,574	83,047,112
Investments	-	6,369,339	11,288	-	-	-	-	-	-	-	6,380,627
Mortgage Loans, net of current portion	-	2,249,985	1,578,357	-	51,411,013	-	-	-	1,602	13,210	55,254,167
TOTAL ASSETS	\$ 109,100	\$ 36,674,481	\$ 4,985,151	\$ 6,817,098	\$ 95,297,611	\$ 446,725	\$ 167,677	\$ 135,275	\$ 5,004	\$ 43,784	\$ 144,681,906

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS - NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS (continued)

June 30, 2006

LIABILITIES AND NET ASSETS	Fee Simple Residential Revolving Fund	Rental Assistance Fund	Housing Finance Revolving Fund	Disbursing Fund	Rental Housing Trust Fund	KPT Resource Center	Federal Grant Program Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Current Liabilities:	\$ 3,852	\$ -	\$ 825	\$ 725,413	\$ -	\$ 10,126	\$ -	\$ -	\$ -	\$ -	\$ 740,216
Accounts payable	28,488	24,455	125,506	57,448	2,706	37,901	-	-	-	-	276,504
Accrued expenses - other	2,068	319	1,147,969	5,885,286	10,351	48,577	167,677	-	16,811	28,548	7,307,606
Due to other funds	-	-	-	25,000	-	-	-	-	-	-	25,000
Due to State of Hawaii	6,898	-	467,543	-	-	-	-	-	-	-	474,441
Security deposits											
Total current liabilities	41,306	24,774	1,741,843	6,693,147	13,057	96,604	167,677	-	16,811	28,548	8,823,767
Net Assets -											
Unrestricted	67,794	36,649,707	3,243,308	123,951	95,284,554	350,121	-	135,275	(11,807)	15,236	135,858,139
Total net assets	67,794	36,649,707	3,243,308	123,951	95,284,554	350,121	-	135,275	(11,807)	15,236	135,858,139
TOTAL LIABILITIES AND NET ASSETS	\$ 109,100	\$ 36,674,481	\$ 4,985,151	\$ 6,817,098	\$ 95,297,611	\$ 446,725	\$ 167,677	\$ 135,275	\$ 5,004	\$ 43,784	\$ 144,681,906

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES AND EXPENSES - NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS

Year ended June 30, 2006

	Fee Simple Residential Revolving Fund	Rental Assistance Fund	Housing Finance Revolving Fund	Disbursing Fund	Rental Housing Trust Fund	KPT Resource Center	Federal Grant Program Fund	Grant-In-Aid Fund	Honolulu	Waialua	Total
Operating Revenues:											
Interest on mortgages, notes, loans, mortgage-backed securities, and net investment in financing lease (note I)	\$ -	\$ 144,630	\$ 83,719	\$ -	\$ 884,552	\$ -	\$ -	\$ -	\$ 140	\$ 610	\$ 1,113,651
Conveyance tax	-	-	-	-	16,993,834	-	-	-	-	-	16,993,834
Other	42,389	19,065	1,259,965	-	300	435,614	2,720,578	-	35	-	4,478,946
Total operating revenues	42,389	163,695	1,343,684	-	17,878,686	435,614	2,720,578	-	175	610	22,586,431
Operating Expenses:											
Project	-	-	-	-	-	-	2,622,869	-	-	-	2,622,869
Personal services	92,768	113,499	1,453,641	-	94,748	157,947	77,835	-	-	-	1,990,458
Housing assistance payments	-	1,677,471	-	-	-	-	-	-	-	-	1,677,471
Administration	12,697	15,025	254,198	-	24,358	42,678	10,802	-	-	-	359,258
Professional services	7,484	15,902	63,227	-	34,433	-	9,052	-	3,611	3,982	137,691
Security	14	38	64	-	-	-	-	-	-	-	116
Insurance	321	247	5,992	-	244	-	-	-	-	-	6,804
Repairs and maintenance	134	597	619	-	11	50,817	-	-	-	-	52,178
Capital expenditures	10	76	5,599	-	705	-	-	-	-	-	6,390
Other	-	-	3,750	-	-	147,498	-	-	-	-	151,248
Total operating expenses	113,428	1,822,855	1,787,890	-	154,499	398,940	2,720,578	-	3,611	3,982	7,004,983
Operating (loss) income	(71,039)	(1,659,160)	(443,406)	-	17,724,187	37,674	-	-	(3,436)	(3,372)	15,581,448
Nonoperating Revenues (Expenses):											
Interest income - cash and investments	1,750	1,390,442	74,298	-	1,102,551	190	-	708	-	-	2,569,939
Net decrease in fair value of investments	-	(749,817)	(410)	-	-	-	-	-	-	-	(750,227)
Interest expense	(16)	(10,310)	(1,064)	-	-	-	-	-	-	-	(11,390)
Total nonoperating revenues	1,734	630,315	72,824	-	1,102,551	190	-	708	-	-	1,808,322
(Loss) income before operating transfers	(69,305)	(1,028,845)	(370,582)	-	18,826,738	37,864	-	708	(3,436)	(3,372)	17,389,770
Operating Transfers Out	-	-	-	-	-	-	-	-	(5,034)	-	(5,034)
CHANGE IN NET ASSETS	\$ (69,305)	\$ (1,028,845)	\$ (370,582)	\$ -	\$ 18,826,738	\$ 37,864	\$ -	\$ 708	\$ (8,470)	\$ (3,372)	\$ 17,384,736

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CHANGES IN FUND NET ASSETS - NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS

Year ended June 30, 2006

	Fee Simple Residential Revolving Fund	Rental Assistance Fund	Housing Finance Revolving Fund	Disbursing Fund	Rental Housing Trust Fund	KPT Resource Center	Federal Grant Program Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Net Assets at July 1, 2005	\$ 137,099	\$ 37,678,552	\$ 3,613,890	\$ 123,951	\$ 76,457,816	\$ 312,257	\$ -	\$ 134,567	\$ (3,337)	\$ 18,608	\$ 118,473,403
Change in Net Assets	(69,305)	(1,028,845)	(370,582)	-	18,826,738	37,864	-	768	(8,470)	(3,372)	17,384,736
Net Assets at June 30, 2006	\$ 67,794	\$ 36,649,707	\$ 3,243,308	\$ 123,951	\$ 95,284,554	\$ 350,121	\$ -	\$ 135,275	\$ (11,807)	\$ 15,236	\$ 135,858,139

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS

Year ended June 30, 2006

	Fee Simple Revolving Fund	Rental Assistance Fund	Housing Finance Revolving Fund	Disbursing Fund	Rental Housing Trust Fund	KPT Resource Center	Federal Grant Program Fund	Grant-In-Aid Fund	Hanalei	Waialeale	Total
Cash Flows from Operating Activities:											
Cash received from borrowers:											
Principal repayments	\$ -	\$ -	\$ 338	\$ -	\$ 3,679,199	\$ -	\$ -	\$ -	\$ 5,035	\$ 3,118	\$ 3,687,690
Interest income	-	206,594	176,708	-	501,463	-	-	-	175	610	885,550
Cash received from renters	-	-	-	-	-	406,944	-	-	-	-	406,944
Cash received for conveyance taxes	-	-	-	-	16,993,834	-	-	-	-	-	16,993,834
Cash payments for loan originations	-	-	-	-	(5,444,471)	-	-	-	-	-	(5,444,471)
Cash payments to employees	(92,768)	(113,499)	(1,453,641)	-	(68,957)	(157,947)	(77,855)	-	-	-	(1,964,667)
Cash payments to suppliers	(16,488)	(1,729,302)	(329,357)	758,583	(89,400)	(267,414)	(2,642,723)	-	(3,611)	(609)	(4,320,321)
Cash (payments to) receipts from other funds	(760)	(3,514)	28,279	(1,652,217)	7,777	3,577	159,067	-	3,435	-	(1,454,356)
Other cash receipts	42,389	19,665	1,259,965	-	300	-	2,637,707	-	-	-	3,957,426
Net cash (used in) provided by operating activities	(67,627)	(1,620,656)	(317,708)	(893,634)	15,579,745	(14,840)	76,196	-	5,034	3,119	12,749,629
Cash Flows from Noncapital Financing Activities:											
Cash received from borrower	-	3,250,002	-	-	-	-	-	-	-	-	3,250,002
Interest paid to the Department of Budget and Finance	(16)	(10,310)	(1,064)	-	-	-	-	-	-	-	(11,390)
Operating transfers out	-	-	-	-	-	-	-	-	(5,034)	-	(5,034)
Net cash (used in) provided by noncapital financing activities	(16)	3,239,692	(1,064)	-	-	-	-	-	(5,034)	-	3,233,578
Cash Flows from Investing Activities:											
Proceeds from maturities of investments	-	-	1,723	-	-	-	-	-	-	-	1,723
Receipts of interest	9,794	1,390,442	74,298	-	1,048,742	190	-	708	-	-	2,524,174
Net cash provided by investing activities	9,794	1,390,442	76,021	-	1,048,742	190	-	708	-	-	2,525,897
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(57,849)	3,009,478	(242,751)	(893,634)	16,628,487	(14,650)	76,196	708	-	3,119	18,509,104
Cash and Cash Equivalents at July 1, 2005	58,107	24,202,030	2,215,263	916,452	25,182,060	386,147	-	134,567	-	22,590	53,117,216
Cash and Cash Equivalents at June 30, 2006	\$ 258	\$ 27,211,508	\$ 1,972,512	\$ 22,818	\$ 41,810,547	\$ 371,497	\$ 76,196	\$ 135,275	\$ -	\$ 25,709	\$ 71,626,320

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS (continued)

Year ended June 30, 2006

	Fee Simple Residential Revolving Fund	Rental Assistance Fund	Housing Finance Revolving Fund	Disbursing Fund	Rental Housing Trust Fund	KPT Resource Center	Federal Grant Program Fund	Grant-In-Aid Fund	Honolulu	Waialae	Total
	\$ (71,039)	\$ (1,659,160)	\$ (443,406)	\$ -	\$ 17,724,187	\$ 37,674	\$ -	\$ -	\$ (3,436)	\$ (3,372)	\$ 15,581,448
Cash Flows from Operating Activities:											
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:											
Operating (loss) income	-	-	78,153	-	(1,765,272)	-	-	-	5,035	3,118	(1,678,966)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:											
Changes in assets and liabilities:											
Mortgage loans receivables	-	-	-	-	-	-	-	-	-	-	-
Notes and loans receivables	-	-	-	-	-	-	-	-	-	-	-
Accrued interest receivable on mortgages, notes and loans	-	61,964	92,989	-	(383,089)	-	(82,871)	-	-	-	(311,007)
Other receivables	(1,375)	-	-	-	-	(29,670)	-	-	-	-	(29,670)
Due from other funds	-	-	769,657	(1,659,577)	-	-	-	-	-	-	(891,295)
Due from State of Hawaii	-	-	-	2,257	-	-	-	-	-	-	2,257
Inventories	-	-	-	(6,742)	-	-	-	-	-	-	(6,742)
Prepaid expenses and other assets	-	(652)	-	263,264	-	-	-	-	-	-	262,612
Accounts payable	(1,600)	-	2	450,119	-	-	-	-	-	-	448,521
Other accrued expenses	5,772	(19,294)	4,090	51,942	(3,858)	(26,421)	-	-	-	-	12,231
Due to other funds	615	(3,514)	(741,378)	5,103	7,777	3,577	159,067	-	3,435	3,373	(561,945)
Security deposits	-	-	(77,815)	-	-	-	-	-	-	-	(77,815)
Net cash (used in) provided by operating activities	\$ (67,627)	\$ (1,620,656)	\$ (317,708)	\$ (893,634)	\$ 15,579,745	\$ (14,840)	\$ 76,196	\$ -	\$ 5,034	\$ 3,119	\$ 12,749,629

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS – INTERNAL SERVICE FUNDS

Year ended June 30, 2006

ASSETS	Equipment rental	Vehicle rental	Total
Current Assets:			
Cash	\$ 720,977	\$ 409,215	\$ 1,130,192
Accrued interest receivable	6,111	3,396	9,507
Total current assets	727,088	412,611	1,139,699
Capital Assets, less accumulated depreciation	20,816	161,062	181,878
TOTAL ASSETS	<u>\$ 747,904</u>	<u>\$ 573,673</u>	<u>\$ 1,321,577</u>
LIABILITIES AND NET ASSETS			
Current Liability -			
Due to other funds	\$ 57,604	\$ 1,909	\$ 59,513
Total liabilities	57,604	1,909	59,513
Net Assets:			
Invested in capital assets	20,816	161,062	181,878
Unrestricted	669,484	410,702	1,080,186
Total net assets	690,300	571,764	1,262,064
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 747,904</u>	<u>\$ 573,673</u>	<u>\$ 1,321,577</u>

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES AND EXPENSES AND
CHANGES IN FUND NET ASSETS - INTERNAL SERVICE FUNDS

Year ended June 30, 2006

	Equipment rental	Vehicle rental	Total
Operating Revenue - Rental	\$ 4,969	\$ 36,574	\$ 41,543
Total operating revenues	4,969	36,574	41,543
Operating Expenses:			
Depreciation	4,438	32,491	36,929
Professional services	5,703	6,516	12,219
Capital expenditures	76,154	3,000	79,154
Total operating expenses	86,295	42,007	128,302
Operating loss	(81,326)	(5,433)	(86,759)
Nonoperating Revenue - Interest income - cash and investments	26,937	16,736	43,673
Total nonoperating revenue	26,937	16,736	43,673
Change in net assets	(54,389)	11,303	(43,086)
Net Assets at July 1, 2005	744,689	560,461	1,305,150
Net Assets at June 30, 2006	\$ 690,300	\$ 571,764	\$ 1,262,064

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS

Year ended June 30, 2006

	Equipment rental	Vehicle rental	Total
Cash Flows from Operating Activities:			
Cash received from renters	\$ 4,969	\$ 36,574	\$ 41,543
Cash payments to suppliers	(24,978)	(8,143)	(33,121)
Net cash (used in) provided by operating activities	(20,009)	28,431	8,422
Cash Flows from Capital and Related Financing Activity -			
Payments for acquisition of property and equipment	(5,968)	(146,030)	(151,998)
Net cash used in capital and related financing activities	(5,968)	(146,030)	(151,998)
Cash Flows Provided by Investing Activity -			
Receipts of interest	24,367	15,955	40,322
Net cash provided by investing activities	24,367	15,955	40,322
NET DECREASE IN CASH	(1,610)	(101,644)	(103,254)
Cash and Cash Equivalents at July 1, 2005	722,587	510,859	1,233,446
Cash and Cash Equivalents at June 30, 2006	<u>\$ 720,977</u>	<u>\$ 409,215</u>	<u>\$ 1,130,192</u>
Cash Flows from Operating Activities:			
Reconciliation of operating loss to net cash			
(used in) provided by operating activities:			
Operating loss	\$ (81,326)	\$ (5,433)	\$ (86,759)
Adjustments to reconcile operating loss			
to net cash provided by operating activities -			
Depreciation	4,438	32,491	36,929
Changes in assets and liabilities -			
Accounts payable	56,879	1,373	58,252
Net cash (used in) provided by operating activities	<u>\$ (20,009)</u>	<u>\$ 28,431</u>	<u>\$ 8,422</u>

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

June 30, 2006

The Corporation's cash and short-term investments consists of the following as of June 30, 2006:

Equity in State Treasury investment pool - Gov't Wide	\$ 170,332,724
Equity in State Treasury investment pool - Fiduciary Funds	288,364
Cash in banks	17,189,884
Cash held by trustees	2,956,113
Money market funds	31,361,595
Deposits held in trust	99,586
	<hr/>
	\$ 222,228,266

Total cash and short-term investments are in agreement with the State Comptroller's central accounting records as of June 30, 2006, as reconciled below:

	Appropriation symbol	June 30, 2006
Cash in State Treasury		
General Fund	G-03-022-K	\$ 4,050
	G-04-020-K	585
	G-04-022-K	88,568
	G-05-020-K	19,860
	G-05-022-K	124,454
	G-06-020-K	649,459
	G-06-022-K	5,318,006
Bond Funds	B-97-479-K	28,179
	B-97-481-K	11,470
	B-00-404-K	22,542
	B-00-405-K	6,191
	B-01-411-K	50,651
	B-01-415-K	500
	B-02-431-K	17,064
	B-02-434-K	24,589
	B-02-435-K	11,722
	B-04-409-K	44,611
	B-04-410-K	1,700,000
	B-04-412-K	23,276
	B-04-413-K	2,460
	B-04-414-K	90,000
	B-04-415-K	34,172
	B-04-416-K	900,000
	B-04-419-K	250,000
	B-04-420-K	280,000
	B-05-412-K	300,000
	B-05-413-K	1,700,000
	B-05-417-K	50,000
	B-05-418-K	13,201
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Subtotal carried forward		\$ 11,765,610

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS (continued)

June 30, 2006

	Appropriation symbol	June 30, 2006
Subtotal brought forward		\$ 11,765,610
Special Funds	S-97-801-K	10,889
	S-97-803-K	26,991
	S-00-308-K	8,790
	S-02-308-K	1,062
	S-02-800-K	247,337
	S-03-308-K	1,088
	S-04-310-K	112,367
	S-04-330-K	22,500
	S-04-337-K	125,590
	S-05-308-K	6,800
	S-05-330-K	59,280
	S-05-337-K	21,794
	S-05-375-K	351,522
	S-06-210-K	391,209
	S-06-214-K	76,197
	S-06-308-K	121,968
	S-06-310-K	18,339
	S-06-319-K	25,709
	S-06-320-K	115,096
	S-06-322-K	196,394
	S-06-324-K	23
	S-06-330-K	686,980
	S-06-332-K	265,345
	S-06-334-K	777,366
	S-06-335-K	409,215
	S-06-336-K	720,977
	S-06-337-K	2,148,795
	S-06-374-K	235
	S-06-375-K	80,259,192
	S-06-376-K	1,781,904
	S-06-377-K	401,779
	S-06-378-K	27,211,508
Trust Funds	T-06-913-K	24,225
	T-06-927-K	3,143
	T-06-930-K	41,810,548
Subtotal carried forward		\$ 170,207,767

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS (continued)

June 30, 2006

	Appropriation symbol	June 30, 2006
Subtotal brought forward		\$ 170,207,767
Total cash held in State Treasury as reported by State Comptroller's accounting records carried forward		170,207,767
Reconciling items:		
Journal vouchers not recorded by DAGS		(195)
Journal vouchers not recorded on books		159,593
Summary warrant vouchers not recorded by DAGS		(29,443)
Summary warrant vouchers not recorded on books		284,325
Lapsed funds		(1,779)
Other		820
		<u>413,321</u>
Cash and short-term investments held outside State Treasury:		
Cash in bank		17,189,884
Cash held by trustees		2,956,113
Money market funds		31,361,595
Deposits held in trust		99,586
		<u>51,607,178</u>
Cash and short-term investments on statement of net assets		<u>\$ 222,228,266</u>

See accompanying independent auditor's report.